A Study of People Management in Small and Medium Sized Enterprises in China

by

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ABSTRACT

China's rapid economic development and the emergence of its large firms have had much attention and commentary, but the important role of small businesses has received less focus. Therefore, the main objective of this thesis is to explore small and medium sized enterprises (SMEs) in China, with specific attention to people management. It examines the nature of people management in SMEs in China by assessing the extent to which human resource management (HRM) practices are applied in the organisations, and by evaluating the cultural and institutional impacts on human resource (HR) practices adopted in these firms. Using a survey questionnaire and an in-depth semi-structured interview, an investigation of people management in SMEs was carried out centred on three main research questions: what is the role of the HR/personnel function in SMEs?; to what extent are HRM practices applied to SMEs?; and what are institutional and cultural factors that affect HRM take-up in SMEs?

Several key findings are derived from this study. First, people management in SMEs is different from the traditional Chinese personnel administration system in the following ways: the terminology; the role of HR manager; the importance of the personnel function in the organisation; the range of powers of the HR department; and the position of the personnel department in the company. Second, the extent of current HR practices in SMEs in China shows a slow convergence to Western HRM practices while the transferability is affected by cultural and institutional factors. Third, there are some similarities between people management in SMEs in China and management practices in SMEs in the West. These resemblances include the vulnerability of SMEs in a changing environment; the difficulties in finding and retaining highly qualified employees; and an informal approach to key HR practices, namely, employee resourcing, training, and relations.

Overall, the nature of people management in SMEs in China displays transitional features. In addition, this thesis suggests that current HR practices in SMEs could be improved and/or adjusted so as to support SMEs' future development in China.

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List of Abbreviations

COEs	Collective-owned Enterprises
CJVEs	Contractual Joint Ventures
DPEs	Domestic Private Enterprises
EJVEs	Sino-foreign Equity Joint Ventures
FDI	Foreign Direct Investment
FIEs	Foreign-invested Enterprises
GDP	Gross Domestic Product
GM	General Manager
GNP	Gross Net Profit
HRM	Human Resource Management
JVEs	Joint Venture Enterprises
MNC	Multinational Cooperation
PA	Personnel Administrative System
PEs	Privately-owned Enterprises
PM	Personnel Management
SCA	Sustained Competitive Advantage
SMEs	Small and Medium Sized Enterprises
SOEs	State-owned Enterprises
TVEs	Township and Village Enterprises
WFOEs	Wholly Foreign-owned Enterprises
WTO	World Trade Organisation

CHAPTER ONE
Introduction

1.1 Introduction

This chapter lays the foundations and sets the scene for the research conducted in the thesis. It establishes the overall field, that is, an examination of people management in small and medium-sized enterprises (SMEs) under a variety of ownership systems in the People's Republic of China (hereafter referred to as 'China'). It states the objectives of the thesis and summarises previous research. It also indicates the research gaps that underline the significance of this study. It defines the research problems and research questions of the study. Further, it discusses the research methodology and describes the structure of the thesis.

1.2 Aims and Objectives

The objectives of the study are to analyse and explain the nature of people management in SMEs in China. According to Rowley (2003: 5), people management in relation to work is 'largely concerned with the more practical aspects of the employment relationship ... and involves people "processing, developing, rewarding and relations"'. Thus, the study seeks to identify the pattern of implementation of a broad range of human resource (HR) practices, defined as those techniques or policies associated with the recruiting, training, rewarding, and participation of human resources (HRs) in SMEs in China. It should be noted that an assessment of the effectiveness of these HR practices is beyond the scope of this study. Thus, first, the current research examines a more fundamental issue, relating to the adoption rate (i.e. numbers of firms) of a selected number of HR practices by Chinese SMEs. Second, the study addresses the issues in relation to the influences of culture and institutional settings on the take-up of Western human resource management (HRM) practices in SMEs. The impact of China's economic reforms on people management in SMEs is assessed and discussed. The main constraints on HRM development in SMEs, especially in a traditional Chinese cultural and institutional environment, are examined. Therefore, the extents to which HR practices in SMEs are situation-specific, or whether there are some universal principles that could be applied in a Chinese setting, are determined by comparing and contrasting Chinese theory and practices with those of the West. Finally, some recommendations are made for SMEs' managers, international researchers, and policy-makers so as to support the development of the SME sector in China.

1.3 Theoretical Background

There is a growing body of research that seeks to examine the impact of HRM practices on organisational outcomes. The studies include those by Huselid (1995), Macduffie (1995), Becker and Gerhart (1996), Huselid et al. (1997), Ichniowski (1997), and Youndt and Snell (2004) from the United States and by Patterson et al. (1997), Guest (1997), Richard and Johnson (2001), Guest et al. (2001), Collins and Clark (2003), Guest et al. (2004) and Michie and Sheehan (2005) from Britain.

Based on large-scale surveys and detailed case studies, many writers have argued that HRM practices can improve company performance. For example, in an intensive on-going ten-year study of over a hundred SMEs by researchers at the Institute of Work Psychology, University of Sheffield (Patterson et al. 1997), it was shown that concentration on HRM practices has had by far the greatest influence upon company performance. Likewise, Poole and Jenkins (1996) examined the development of comprehensive HRM policies by surveying 909 firms in Britain, and found that HRM is one of the major factors enabling firms to gain a competitive edge or a lasting and sustained advantage over their competitors in the modern world. More recently, a survey of 1900 Danish business firms carried out by Laursen and Foss (2003) reported that the adoption of an HRM system could be expected to impact on innovation performance to a much higher degree. Other studies (for example, Storey 1995, Guest 1997, Den Hartog and Verburg 2004, Youndt and Snell 2004, Michie and Sheehan 2005) also demonstrated that a firm's drive for performance and its willingness to pursue excellence lead to greater emphasis on HRM. These studies have demonstrated that HRM policies and practices contribute to business success, and therefore, there are correlations between HRM and organisational competitive advantages.

However, it is noteworthy that most these investigations have been conducted in the US, UK, or Western developed nations. In addition, HRM in those studies are highly involved with high-commitment and/or high-performance HR practices, such as extensive recruitment and selection, employee training, performance-related pay and appraisal, information sharing, and employment participation (see Chapter 3 for details). Even if the cumulative evidence shows that the causation between HRM and performance is promising, therefore, the transferability of HRM has been questioned by many HR scholars and researchers. For example, Brewster (1993) argues that the concept of HRM as defined by some American commentators is inadequate in the European situation, while Guest (1990) claims that the values underlying HRM represent aspects of the 'American Dream', namely, a belief in the potential for human growth; a desire to improve the opportunities for people at work; a reinforcement of the importance of strong leadership; and a kind of rugged entrepreneurial individualism reflected in, and reinforced by, a strong organisational culture. Given the historical, social and institutional context of employment relationships in the UK, moreover, Cooke (2001) points out that high-performance HRM, such as functional flexibility through high level training, high-involvement/commitment, high rewards and quality initiatives, may not be a strategy that firms opt for. Likewise, a comparative HRM study of hotels, hospitals and local governments by Boselie et al. (2003) suggests that HRM in the Netherlands reflects the so-called Rhineland model of employment relations, in which legislation, institution and stakeholders all play an important role in shaping HRM policies and practices.

Further, the extent to which HRM is applicable in the Asian content has been questioned. The claims of various researchers about the impact of institutional and cultural factors are common in theoretical discussions of HRM in different social contexts (for example, Sparrow and Wu 1998, Hsu and Leat 2000, Rowley and Benson 2002, Chan et al. 2004). In addition, the applicability of findings from a number of empirical studies that have been conducted to test the relationship between HRM and performance indicate that HRM practices have various impacts on firm performance. For instance, in a cross-sectional survey of 82 firms in Hong Kong, Chan et al. (2004) found that high-performance HRM practices were not an important influence on firm performance, while organisational culture could be a valuable resource for companies. By analysing a matched sample of 48 Indian and British firms in the manufacturing sector, Sparrow and Budhwar (2002) concluded that HRM strategies vary greatly in a cross-national context. Therefore, the literature shows that culture and institutions do play a role in the adoption of HRM in an organisation since the emphasis and composition of the various dimensions and/or mechanisms differ across countries (Paauwe and Boselie 2003).

The applicability of HRM has been challenged not only by the differences in culture and institutional settings, but also by the impossibility of adapting research on larger firms to small firm implementation, which is also a cause for concern (Hornsby and Kuratko 2003). SMEs are criticized by some researchers for their failure to use high-performance HRM. In a survey on 100 senior managers in South Yorkshire, UK, Cassell et al. (2002) found that key HRM practices were seen in large organisations but rarely used in small firms (<250 employees). Similarly, Chandler's (2000) study of 66 small manufacturing firms (size median = 31 employees) failed to identify a direct link between organisational performance and either training or incentive compensation. In a comparative study of the training policies and practices in SMEs (<500 employees) among six countries (UK, Germany, France, Finland, USA, and Japan), Storey (2004) concluded that there was no satisfactory assessment of the link between SMEs, formal management training and firm performance. Thus, it is debatable that a high-performance HRM, which is derived from a large firm's scenario, could become a vehicle for SMEs to enhance their organisational competitiveness.

In relation to HRM in China in particular, the constraints and limits in transferring HRM practices into a Chinese setting have been investigated by a number of researchers. Some discussed the differences between traditional Chinese personnel management systems (for example, see 'Three Old Irons' in Ding and Warner 2001) and Western HRM practices (for example, Child 1994, Tsang 1994, Zhao 1994, Lu 1997, Warner 1996, 1997, Luo 2000, Ding et al. 2000, 2002, Zhu and Dowling 2002, Zhu and Warner 2003), while others examined the effects and importance of contextual factors in the adoption of HRM in Chinese enterprises (for example, Redding and Ng 1983, Easterby-Smith et al. 1995, Verburg et al. 1999, Glover and Siu 2000, 2001, Wong et al. 2002, Child and Warner 2003, Ding et al. 2006). Nevertheless, while the amount of literature has mushroomed, it has focused primarily on large sized enterprises (1000 employees plus), in particular, joint ventures (JVEs) and state-owned enterprises (SOEs). Due to the closed nature of SMEs and the difficulties in data collection, there are only limited studies on SMEs (for example, Zheng 1999, 2006, Cooke 2002, 2005, Wang and Qiao 2007).

Since a number of issues concerning people management in SMEs in China have yet to receive adequate attention, there is a significant gap in knowledge concerning HRM development in China. Thus, more effort is needed to expand the existing research to cover HRM in a wider range of types of Chinese enterprises, especially SMEs. Consequently, the extent to which HRM is relevant in non-Western and SME sectors emerges as a central question that needs further investigation.

1.4 Rationale for the Present Study

The potential economic superpower of China has achieved an annual gross domestic product (GDP) growth rate of 7 to 13 per cent for nearly three decades, even through the Asian Financial Crisis of 1997 when other high-growth economies declined (Hsiung 2003). Along with the quickening pace of the structural adjustment of Chinese SOEs in the past few years, SMEs have played an important role in the national economy, easing employment pressure, boosting non-governmental investment, optimizing the economic structure, and bringing about market prosperity (Anderson et al. 2003, Zhang 2005). As SMEs grow in importance in China, it is even more necessary than in the past to find a better way to nurture this development in the evolving economic, social and political environment.

A second reason for conducting this current research is that SMEs are facing enormous pressures for change as China integrates more into the global market after WTO accession in 2002 (Yuan 2002, Yeung 2002, Zhai and Wang 2002). The pressures, which impact as external factors, can be found in the business environment, such as globalisation, technological innovations, and demographic and social changes. In China's South-eastern and coastal provinces particularly, the competitive pressures from both local and foreign rivals are considerably higher as the business atmosphere is heavily influenced by multinational companies (MNCs) (Luo 1999, Yeung 2002). Following the growth of interest in strategic analysis and in the face of mounting competition in industry, it is not surprising that HRM has been identified as a potential source of competitive advantage (for example, Zheng 1999, Glover and Siu 2000, Fu and Chow 2000, Ding et al. 2001, Wong et al. 2002, Bjorkman and Fan 2002, Ng and Siu 2004, Hassard et al. 2004, Zhu et al. 2005, Wei and Lau 2005).

However, the extent to which Chinese enterprises are adopting a Western HRM approach in their people management is a matter of some debate. On the one hand, many international researchers (for example, Ju 1996, Rowley 1997, Rowley and Bae 2002, Zhu and Warner 2003) are now beginning to appreciate that the Asian block is far from homogeneous, and differences in HRM systems reflect different national histories and cultures. On the other hand, it must be acknowledged that Western management theories do have an effect in China (Rowley and Lewis 1996, Cooke 2005). Given the high level of foreign investment and Chinese modernisation programmes, for instance, some scholars argue that these influences have increased the likelihood of HRM take-up among firms in China (for example, Ng and Siu 2004, Cooke 2005, Zhu et al. 2005). Thus, issues related to the nature of people management in SMEs in China become pertinent to their future development.

Third, the urge to explore the differences between the West and the East in terms of culture, institutions, and their impacts on management practices has always been a key drive in my further study. Therefore, in order to identify the nature of people management in SMEs in China, the current research intends to examine a number of specific issues, for example, the extent to which SMEs in China use HR practices. Can this be seen as 'traditional' personnel management (PM), Chinese personnel administration (PA) systems, or 'newer' HRM (see Chapter 4 for details)? What do managers, HR practitioners and employees think of HR practices in their organisations? What is the role of HR/personnel managers in the strategy-making process? Which are the most favoured methods adopted by SMEs in relation to four major HRM areas, namely, recruitment, training, rewards, and employee relations? What are the key characteristics of labour-management relations? How and to what extent do cultural and institutional factors affect the adoption of HRM practices in SMEs? Is people management in SMEs in China similar to and/or different from the findings regarding people management in similar SMEs in the West?

1.5 Research Methodology

This study employs a mix of research methods. It combines a survey approach with in-depth, semi-structured interviews (see Chapter 6 for details).

The geographical focus is on Jiangsu, a province located in the middle of China's East coast and on the lower reaches of the Yangze River (see Figure 1.1). With a total area of 102,600 square kilometres (1.07 per cent of China), and a population of 74.75 million in 2005 (5.75 per cent of China's total), Jiangsu plays an important role in the nation's economy (see Table 1.1). In 2005, for instance, its GDP ranked third in the country after those of Guangdong and Shandong (producing 10 per cent of the nation's total); it was also the third largest consumer market in the country as its retail sales of consumer goods reached RMB570 billion (USD69.5 billion at exchange rate 8.2), accounting for 8.5 per cent of China's total; it also ranked top among all the provinces and municipalities (21.9 per cent of China's total) in attracting foreign direct investment (FDI) (utilized amount). Furthermore, the share of industrial output of the seven pillar industries, namely, electronics, telecommunications, chemicals, textiles, machinery, equipment and metallurgy in the province was 60.9 per cent of the nation's total in 2005 (see Table 1.2) (Jiangsu Statistical Yearbook 2006, China Statistical Yearbook 2006). Moreover, Jiangsu was first in China with respect to the number of SMEs, industrial outputs and net income of SMEs in 1979 (Byrd and Zhu 1989). Since then, Jiangsu has acted as a pioneer in SME development. For example, the 'SU-NAN Model', which includes the rules, regulations, and policies pertaining to SMEs in Jiangsu, is widely applied in other South-eastern provinces in China. Due to these factors, numerous United Nations research projects also use Jiangsu province as the research context for assessing SMEs' development and experience (Byrd and Lin 1989).

The research is conducted in two parts to explore the nature of people management in SMEs in China. The first part consists of a study based on survey data. Due to the lack of empirical evidence regarding the coverage of HR practices of SMEs operating in China, the aim of this part of the study is to examine the extent of HRM in SMEs. In addition, the current HR practices that are applied in the researched companies are investigated so as to capture the rapid amount of change and development of people management within the Chinese economy. The second part of the research study looks in greater depth at the characteristics of people management at firm level through the semi-structured interview method. In total, 13 companies agreed to participate in this part study and 43 in-depth interviews were carried out so as to provide a more holistic, realistic and grounded understanding of people management in SMEs. Observation and documentary material were also collected during the interviews. A number of managers, who were mainly responsible for HR/personnel issues, were interviewed. Interviews were also conducted with other key actors such as employees, line managers, senior managers, trade union members and owner managers (see Chapter 6 for details).

Figure 1.1: Map of Jiangsu, China

Table 1.1 Major Economic Indicators, Jiangsu 2005

Economic Indicators	2005 Value	2005 Growth (%, y-o-y)	Share in the nation (%)
Gross Domestic Product (RMB bn)	**1,830.60**	**14.5**	**10**
Per Capita GDP	**24,560**	**17.8**	**-**
Added Value Output			
- Primary industry (RMB bn)	146.2	2.9	6.3
- Secondary industry (RMB bn)	1,035.5	16.0	11.9
- Tertiary industry (RMB bn)	648.9	14.9	8.9
Value-added Industrial Output (RMB bn)	**933.5**	**16.7**	**11.2**
Fixed-assets Investment (RMB bn)	**8,740**	**28**	**9.9**
Retail Sales (RMB bn)	**570**	**16.5**	**8.5**
Inflation (Consumer Price Index, %)		**2.1**	
Exports (US$ bn)	**123**	**40.6**	**16.1**
- By FIEs (US$ bn)	94.2	44.6	21.2
Imports (US$ bn)	**105**	**25.9**	**15.9**
- By FIEs (US$ bn)	90.5	28.6	23.4
Foreign Direct Investment			
- Number of projects	7,126	-0.8	16.2
- Contracted amount (US$ bn)	46.4	28.7	24.6
- Utilized amount (US$ bn)	13.2	8.6	21.9

Notes: For all state-owned enterprises and other forms with annual sales over RMB 5 million
Sources: Jiangsu Statistical Yearbook 2006, China Statistical Yearbook 2006

Table 1.2 Output Share of Leading Industry Groups, Jiangsu 2005

Leading Industry Groups, Jiangsu 2005	% share of total industrial output
Electronic and Telecommunications	16.1
Textile industry	9.3
Raw Chemical Materials and Chemical Products	9.6
Electric Equipment and Machinery	6.4
Ordinary Machinery Manufacturing	5.9
Smelting and Pressing of Ferrous Metals	9.3
Transportation Equipment Manufacturing	4.3

Source: Jiangsu Statistical Yearbook 2006

1.6 Significance of the Study

As most early studies on SMEs were in the context of advanced market economies, SMEs in developing economies remain by and large an unexplored and important research agenda (Luo 1999). The issues addressed in this study contribute to several aspects as follows.

First, the study contributes to the future of HRM development in SMEs in China. On the one hand, the findings are central to a better understanding of Chinese SMEs. On the other hand, the study fills a gap as there are deficiencies in the analysis of people management in SMEs in China. Results can be used to put forward suggestions for managers of Chinese SMEs on how to gain sustained competitive advantage in changing business environments. Also, it is possible to create a theory that policy makers and the Chinese government can use to construct and reform the supporting system for SMEs.

Second, the study gives an opportunity for international firms, managers and researchers to look at SMEs' business development in a developing economy, such as China. This understanding helps foreign companies to identify key leverage points when dealing with Chinese companies. Even companies that do not intend to enter the Chinese market may learn from the results since they may defend themselves better against Chinese competitors at home or gain competitive advantages in other markets.

Third, since in the presence of cultural disparities, organisational practices and their effectiveness may differ from those in the West, the study also sheds light on the applicability and transferability of Western management concepts and techniques to China, especially with relation to HRM practices. Domestic SMEs in China may have to keep at least parts of their PM practices that are embedded within traditional Chinese characteristics, while they practise elements of Western management. Therefore, the findings of the study contribute not only to the development of SMEs, but also to the debates of possible convergence or continuation of differences in HRM, and the relationship between human capital and organisational performance.

1.7 Structure of the Thesis

The thesis is organised in nine chapters (see Figure 1.2).

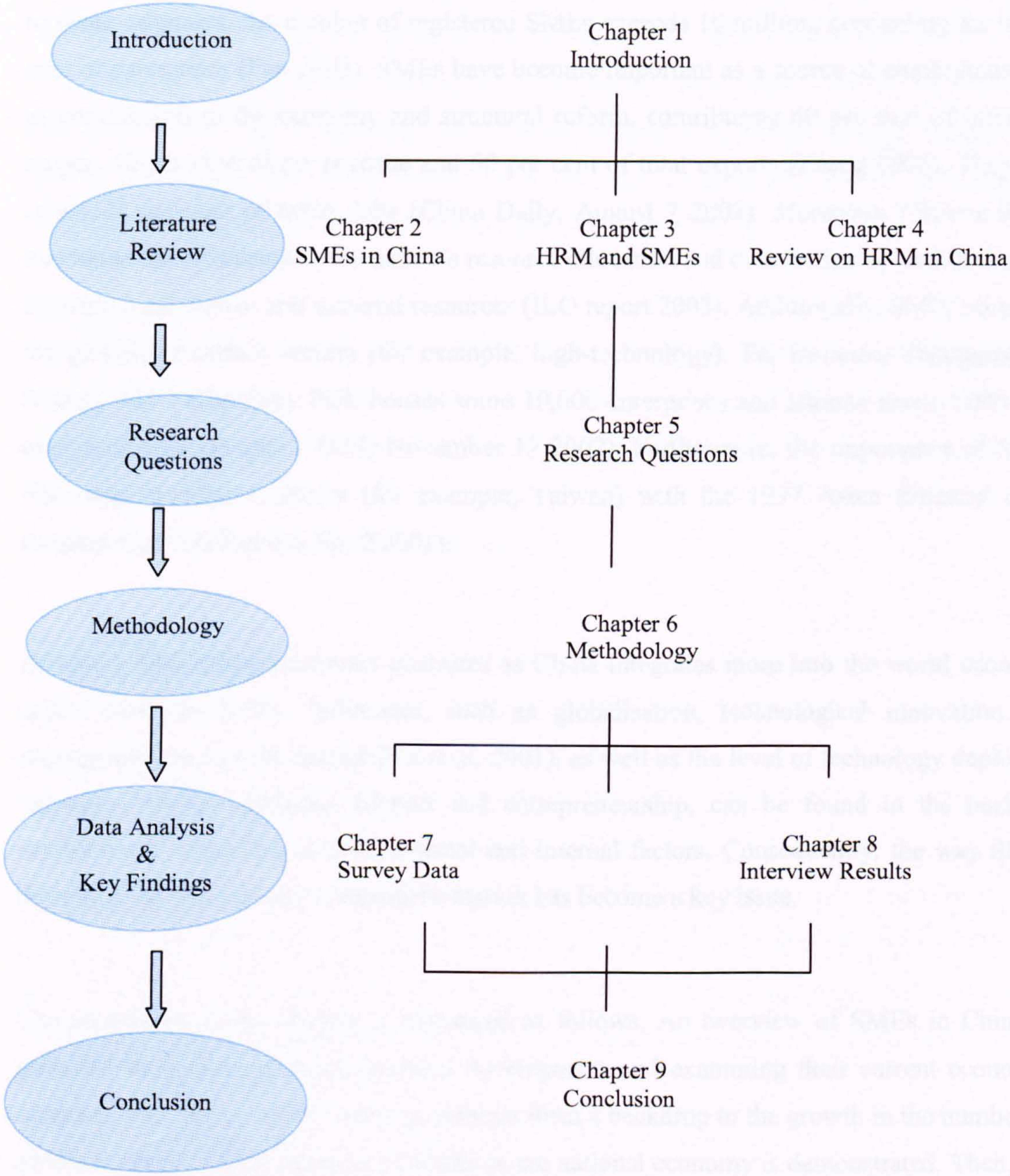
Chapter 1 outlines the area of the research while Chapters 2 to 5 comprise a review of the literature, in which the foundation for the study is formed. Chapter 2 provides an overview of SMEs' development in China; the importance, difficulties and challenges of SMEs in China in the new economic environment are examined and discussed and a rationale of the current research is outlined.

Chapter 3 looks at HRM theory in general and in relation to SMEs in particular. The four main HRM areas are defined based on previous research. Theories and empirical studies are discussed in respect of their implications for SMEs' business operations in China. On the one hand, the chapter addresses the importance of HRM in SMEs' development by reviewing the literature concerning the link between HRM and organisational performance. On the other hand, it emphasises that institutional and cultural differences are crucial in understanding HRM in a different context and country. Previous studies have argued that HRM can deliver competitiveness, but in the meantime, it is culturally limited. In addition, the characteristics of HRM in SMEs are affected not only by size but also by other factors, such as industrial sector, product market and strategy, ownership form and external environment. Therefore, the chapter implies that a study of HRM in SMEs in China is a complex rather than a simple category.

Chapter 4 identifies the major influences affecting the applicability of Western HRM theory and practices to SMEs in China, which include political, cultural and institutional factors. The business system concept proposed by Whitley (1992) is employed in analysing the effect of the external environment on HR practices in SMEs. In order to examine people management in SMEs more thoroughly, a conceptual model for the current study is presented in Chapter 5. Moreover, different elements and dimensions at different levels within a national HRM framework are identified. Thereafter, the exploration of these themes leads to the formulation of research questions that the fieldwork investigates and attempts to answer.

Chapter 6 discusses the research methodology by presenting the rationale for quantitative and qualitative research and by describing the research design. Chapter 7 presents the survey data in respect to the extent of HR practices in SMEs, while Chapter 8 discusses the interview results with special attention to the influences of contextual factors on the applicability of HRM in the enterprises. The researcher investigates the data and reports the key findings. Finally, in the conclusion, Chapter 9 recommends changes and then discusses the possible impact of these changes on SMEs in China by comparing and contrasting the findings with Western HR practices and theories.

Figure 1.2 Structure of the Thesis



CHAPTER TWO

Small and Medium Sized Enterprises in China

2.1 Introduction

China's development and the importance of its large firms have received an increasing amount of attention in political and popular discourse, the media and academia. Since the 1990s, SMEs have played an increasingly important role in this economic growth. According to some estimates, the number of registered SMEs exceeds 10 million, accounting for 99 per cent of enterprises (Fan 2003). SMEs have become important as a source of employment and as contributors to the economy and structural reform, contributing 60 per cent of industrial output, 40 per cent of tax revenue and 60 per cent of total exports (Zhang 2005). They also create 75 per cent of urban jobs (China Daily, August 7 2003). Moreover, Chinese SMEs maximize the efficiency of the nation's resource allocation and distribution by mobilizing and utilizing local human and material resources (ILO report 2003). Additionally, SMEs stimulate the growth of certain sectors (for example, high-technology). For instance, Zhongguancun Science and Technology Park houses some 10,000 enterprises and attracts about 1,000 new ones each year (*People's Daily* November 12 2002). Furthermore, the importance of SMEs was seen in other countries (for example, Taiwan) with the 1997 Asian financial crisis (Nankai Business Review No. 2 2001).

However, SMEs face enormous pressures as China integrates more into the world economy (Zhou and Xie 2001). Influences, such as globalisation, technological innovation and demographic and social change (Yu et al. 2001), as well as the level of technology deployed, innovative ability, financial support and entrepreneurship, can be found in the business environment, impacting as both external and internal factors. Consequently, the way SMEs develop in an increasingly competitive market has become a key issue.

The remainder of this chapter is structured as follows. An overview of SMEs in China is provided by looking at their historical development and examining their current economic situation. The chapter shows that key reforms form a backdrop to the growth in the number of SMEs in China. The importance of SMEs in the national economy is demonstrated. Then, the difficulties, challenges, and opportunities for SMEs in the new economic environment are discussed, especially those relating to post-WTO entry. The issues of HRM in SMEs are examined generally and in the Chinese context.

2.2 Definitions

Table 2.1 illustrates that there is no general, legally binding definition for SMEs globally. SMEs have been defined against various criteria, such as different sectors, the number of workers employed, the volume of output or sales, the value of assets employed, and the use of energy (ILO report 2003). For example, the OECD (1994) defines establishments with up to 19 employees as 'very small'; with up to 99 as 'small'; from 100 to 499 as 'medium', and with over 500 as 'large'. However, many establishments in some developing countries with 100 to 499 employees, which according to the OECD definition would be considered 'medium', are regarded as relatively large firms (ILO report 2003).

In addition, the definitions of SME differ from one country to another, as they can be based on a nation's economic situation. For example, Germany defines SME as fewer than 500 employees whereas South Korea classifies SME as fewer than 1,000 employees (Zhou and Cheng 2003). Some countries even do not have fixed definitions of SMEs internationally (for example, Vietnam, UK) (www.ciionline.org).

Further, within a country or region, definitions of SME are different at different stages of economic development. For example, in the U.S.A, the number of employees of SMEs in the manufacturing sector was classified as no more than 250 employees in 1953, but was recently amended to no more than 1,000 employees (Zhou and Cheng 2003). In China, the definitions and criteria of SME have been adjusted four times since 1949. On February 19, 2003, a new Standards on the Small and Medium-Sized Enterprises document was published to relevant government agencies with the approval of the State Council in China (see Table 2.2). The standards apply to the government statistics for work and replace the old classification standards, which came into effect in 1988 and the supplementary standards published in 1992.

Table 2.1 Definitions of SMEs in Most Asian and Other Countries

COUNTRY	Category of Industry	Criteria/Country's Official Definition
Australia	Small	< 20 employees
	Medium	< = 200 employees
Canada	Manufacturing	Independent firms having <200 employees
European Union	SME	< 500 employees
Hong Kong	Manufacturing	< 100 employees
	Non-manufacturing	< 50 employees
Indonesia	SME	< 100 employees
Japan	Manufacturing, Mining and transportation construction industries	< 300 employees or invested capital < £0.42 million
	Wholesale Trade	< 100 employees or capitalisation < £0.13 million
	Retail Trade and Services	< 50 employees or capitalisation < £41,920.843
Korea	Manufacturing	< 300 employees, £10.89 – 43.57 million of capital (assets)
	Mining and Transportation	< 300 employees Construction; < 200 employees Commerce and other service business; < 20 employees
Malaysia	Small and medium industries	< = 150 full time workers or with a shareholder fund of < £3.64 million
Philippines	SME	< 200 employees, asset size < £0.63 million
Singapore	Manufacturing	fixed assets < S$ 15 million
	Services	< 200 employees and fix assets < £4.98 million
Taiwan	Manufacturing, Mining and construction industries	< £0.93 million and < 200 employees
	Services industries and others	< £1.24 million of sale volume and < 50 employees
Thailand	SME	< = 200 employees or fixed assets <£1.49 million
United Kingdom	SME	The company law thresholds for SMEs have recently been increased to the maximum possible under EU regulations (i.e. <500 employees).
United States	Very small enterprises	< 20 employees
	Small enterprises	20-99 employees
	Medium enterprises	100-499 employees
Vietnam	SME	No fixed definition, generally < 500 employees

Note: Local currency has been converted to GBP (£) based on exchange rate at www.xe.com.
Sources: Adapted from www.samllbusinesseurope.org, www.esba-europe.org, www.sba.gov, www.sme.ne.jp, www.ifm.bonn.org

Table 2.2 National Standards on SMEs in China

SECTORS		Employees Numbers	Annual Revenue (RMB million)	Total Assets (RMB million)
Industrial		<300-2,000	>3,000-30,000	>4,000-40,000
Construction		<600-3,000	>3,000-30,000	>4,000-40,000
Transport & Posts	**Transport**	<500-3,000	>3,000-30,000	
	Postal service	<400-1,000		
Wholesale & Retail	**Wholesales**	<100-200	>3,000-30,000	
	Retails	<100-500	>1,000-15,000	
Hotel and Restaurant		<400-800	>3,000-15,000	

Statistics benchmark: The payroll is the year-end employment number; the revenue of industrial enterprises is the annual sales revenue; the revenue of construction enterprises is the year-end completed revenue; the revenue of wholesale and retail enterprises is the annual sales; and the revenue and total assets of enterprises in the transportation and posts sector and hotels and restaurants are operating revenue and combined assets respectively.

Source: State Economic and Trade Commission, State Development Planning Commission, Ministry of Finance, and State Statistical Bureau, the Small and Medium-Sized Enterprises Promotion Law of the People's Republic of China, February 19, 2003. (www.stats.gov.cn-18/08/2003)

Since there is no generally agreed definition of what constitutes an SME internationally, an upper limit of up to 500 employees was adopted in the study. This criterion is in accordance with the definition of SMEs in most parts of the world, which consider organisations with up to 250 or 500 employees as SMEs (see Table 2.1). In addition, a number of HRM studies used 500 employees as a cut-off point to define SMEs (Storey 2004, Den Hartog and Verburg 2004, Hayton 2003, Laursen and Foss 2003, Boselie et al. 2003, Siu 2000, Kinnie et al. 1999, Golhar and Deshpande 1997, 1994, Wong et al. 1997, Hendry et al. 1995, Duberley and Walley 1995). Therefore, up to 500 employees became one of the key criteria in selecting the researched companies.

Nevertheless, while many researchers argue that size may be a key factor in explaining HR practices in SMEs, by itself it is not sufficient to make generalizations for the sector as a whole since other influences affect HR practices in SMEs, such as product market and strategy, industry characteristics, technology, ownership forms, ethnicity or cultural influence and so on (Wilkinson 1999, Goss 1991, Ram 1991, Stanworth and Curran 1981). Given the diversity of ownership forms and business nature in SMEs in China (see Table 2.3) the focus here is on urban SMEs of four major ownership types: domestic private enterprises (DPEs: 'siying qiye'), collective-owned enterprises (COEs: 'jiti qiye'), state-owned enterprises (SOEs: 'guoyou qiye'), and foreign-invested enterprises (FIEs: 'waizi qiye'), including sino-foreign equity joint ventures (EJVEs:' zhongwai hezi qiye'), contractual joint ventures (CJVEs: 'zhongwai hezuo qiye'), and wholly foreign-owned enterprises (WFOEs: 'waishang duzi qiye'). No limitations were specified in terms of the type of industries or sectors in which a firm operated. Instead, firms from a variety of industries were included in the sample.

Table 2.3 Ownership Forms of Registered SMEs in China (1999)

OWNERSHIP FORM	%
State-owned enterprises	33.4
Collective-owned enterprises	16.02
Cooperative Units	4.75
Joint-venture enterprises	1.3
Limited Liability Corporations	19.73
Share-holding Corporations Ltd.	4.17
Private-owned enterprises	7.03
Other domestic investment	0.2
Foreign-owned enterprises (incl Taiwan, HONG KONG)	13.41
Total	100.0

Source: Adapted from Chiu (2002)

2.3 Historical Development

Chinese SME development reflects the economy's evolution. It can be divided into three major stages:

Pre-Reform Period (1949-78)

From 1949 to 1978, China followed the Soviet model of central planning based on the control of inputs and outputs (Anderson et al. 2003). All privately owned industrial and commercial enterprises, including SMEs, were absorbed into the state sector of the economy. For example, all small shops were converted into retail outlets for state-produced goods. Later on, all retailers were obliged to join a cooperative (Dana 1999). During this period, the development of SMEs rose and fell with the turbulent social and economic situation. During the 'Great Leap Forward' (1958-65), for instance, SMEs continued to develop in the first three years, stimulated by the campaign of 'the people's commune' (Zhou and Cheng 2003). Conversely, the number of SMEs subsequently declined and collapsed as the government closed down or merged them in the last three-year period (Zhou and Cheng 2003). Finally, from 1966 to 1976, with the Cultural Revolution ongoing, SME numbers grew from around 30,000 to 80,000 (Zhou and Cheng 2003).

Reform Period (1979-91)

Since 1978, China has initiated a series of reform and open-door policies (Dana 1999). This has represented a shift from a highly-centralized planned economy to a new market-based socialist economy (Anderson et al. 2003). Government policy has emphasized SMEs as a supplement to the socialist market economy (Dana 1999). A dual-track approach was adopted by the government so as to protect large SOEs while encouraging PEs to flourish (Malik 1997). The government devolved the decision-making power to enterprises and gave them greater control. SMEs were able to access needed materials as resources were gradually released to the market (Siu 2005). In the industrial sector, for instance, large state factories began to lease plants to individuals so that licensed businessmen were able to obtain supplies from state-owned wholesalers (Dana 1999). SMEs developed steadily as one of the key reform aspects. The number of registered small business owners, such as PEs (>8 employees) and one-man businesses ('getihu') (<8 employees) in urban areas increased from one million in 1980 to 1.47 million in 1982, and 2.31 million in 1983 (Dana 1999). In 1992, there were over 15 million small business owners in industry and commerce (Dana 1999). Moreover, to reduce problems involving uncontrollable urbanisation, from 1978, rural enterprise development was encouraged. As a result, TVEs emerged, with an average 30 per cent annual growth rate (Zhou and Cheng 2003). Further, the government opened up 14 coastal cities to overseas investment in 1984 (Anderson et al. 2003). Large amounts of FDI were encouraged by Chinese government policy. FDI not only provided capital and entailed spillovers to local SMEs, but also many FDI firms were themselves SMEs.

Post-Reform Period (1992-1998)

With the 1992 renewal of economic reforms, China enjoyed faster economic growth, with an average GDP growth rate of nearly 10 per cent annually, while its external trade grew by more than 15 per cent a year (Zhai and Wang 2002). China has also been acclaimed as a potential economic superpower by international bodies like the World Bank (Warner 2003). As Malik (1997: 185) comments, 'the traditional entrepreneurial spirit sprang up in almost every corner of China'. SMEs expanded rapidly in all ownership sectors. Urban SMEs, which comprise small and medium-sized SOEs, COEs, household and private firms, and other ownership forms, mainly JVEs, produced about another one-third of GDP and employed 115 million urban workers (Sun 2000) (see Table 2.4).

Table 2.4 Significance of SMEs in China

SMEs	GDP	Employment	Assets
Rural SMEs	33% National GDP since 1996	130.5 million, 1997	2,112.6 billion yuan, 1998
• TVEs	• 54% (in 1996)	• 50.7%	
• PEs	• 46% (in 1996)	• 49.3%	
Urban SMEs	63.7% urban GDP in 1994	62.6% urban employment	45.6% of the urban
• SOEs	• 50%	• 47.2%	
• COEs	• 50%	• 31.2%	
• PEs		• 14.8%	
• Others		• 6.8%	

Source: Adapted from Sun (2000)

Table 2.5 provides a summary of the key reforms that are associated with the major development of SMEs in China. The table indicates that the degree of change in policy has affected SMEs profoundly.

Table 2.5 Key Economic Reform Policies and the Major Stages of SME Development

Year	Policy	SME Development
1978	Open Door Policy; Joint Venture Law: Price Liberalization of Farm Products	A shift from a 'black' economy to a legitimate and formally recorded enterprise '***SME is a supplement to the socialist market economy.***'
1980	Fiscal Autonomy to local government; Creation of Special Economic Zones; Private Income Tax	
1981	Individual Enterprises Encouraged in Urban Centers	
1982	Price Liberalization of Industrial Products; Patent and Trademark Laws	
1983	SOEs Taxed instead of Profit Sharing; COEs Encouraged; People's Bank of China Begins to Assume Some Functions of a Central Bank	
1984	14 Coastal Cities Opened Up to Overseas Investment; Director-Responsibility System; TVEs Created	
1986	Labour Contract System Introduced	
1988	SOE Contract Responsibility System; Regulation on PEs published; Enterprises and Bankruptcy Laws Passed	
1989	New Regulations on Mergers; Joint-Stock Companies; Commercialization of Banks	
1990	Copyright Law	
1991	Delegation of Direct Foreign Trade Rights to SOEs; Pensions and Housing Reform; Establishment of Shanghai and Shenzhen Stock Markets	
1992	Deng's Southern Tour; Patent and Trademark Laws Revised; New Operating Mechanism and Autonomous Rights to SOEs	
1993	Decision of the Third Plenum on Establishing Modern Enterprise System; New Competition Law; New Accounting Standards Introduced	
1994	Foreign Exchange Reform; Fiscal and Tax Reform; Implementation of Company Law	
1995	New Commercial Banking Law; People's Bank of China Law; Provisional Regulations Guiding Foreign Investment; Insurance Law	
1997	Merger/acquisition in Light industry sector so as to form large conglomerates;	
1998	A division of SME as part of the State Trade and Economic Commission	
1999	The Constitution Amendments	Formally acknowledge the role of the private sector '***SME is an important component of market based socialist economy***.'
2000	The All-China Working Management Group for Promoting the Development of SME	
2001	Some Comments on Intensifying Work on Managing Loans for SME; Several Opinions on Strengthening the Administration of Credits of SME; Establish an SME agency to institutionalize a framework of supports to SMEs	
2003	The SME Promotion Law of PRC; Provisional Stipulations of the Standards of SMEs	

Source: Partly adapted from Anderson et al. (2003)

2.4 The Importance of SMEs

SMEs are the cornerstone of a nation's economy. A number of large enterprises develop from SMEs. Large enterprises also rely on SMEs. For instance, SMEs are very active in some spheres, engaging in multiple product lines, small-series production and the service industry. Even though the definitions of SMEs are varied, the importance of SMEs in the contemporary global economy has been demonstrated. Table 2.6 shows that SMEs have contributed significantly to the economy of major countries worldwide; they comprised some 95 per cent of all business, provided 65 per cent of total employment, and contributed some 50 per cent of industrial output.

Table 2.6 Importance of SMEs in Various Economies

COUNTRY (SME definitions)(persons)	The Number of SMEs	Employment	The Contribution to GDP (%)
Australia(<100)	96.0	45.0	23.0
Belgium(<500)	99.7	72.0	-
Canada(<500; <50)	99.8	66.0	57.2
Denmark(<500)	98.8	77.8	56.7
Finland (<500)	99.5	52.6	-
France (>10<500)	99.9	69.0	61.8
Germany (<500)	99.7	65.7	34.9
Greece (<500)	99.5	73.8	27.1
Ireland (<500)	99.2	85.6	40.0
Italy (<500)	99.7	49.0	40.5
Japan (<300)	99.5	73.8	57.0
Holland (<100)	99.8	57.0	50.0
Portugal (<500)	99.0	79.0	66.0
Spain (<500)	99.5	63.7	64.3
Sweden (<200)	99.8	56.0	-
Swiss (<500)	99.0	79.3	-
UK (<500)	99.9	67.2	30.3
USA (<500)	99.7	53.7	48.0

Source: Adapted from Yang (2002)

Nowadays, the significance of SMEs continues to grow in China. In fact, according to unpublished sources, the number of SMEs in China is more than 40 million, including 0.886 million urban PEs, 1.5 million SOEs, 13.91 million urban one-man businesses ('getihu'), 3.1 million urban COEs, and 20.7 million TVEs (Zhang 2005). SMEs not only help to expand the scale of the market economy, but also contribute to the creation of the system of socialist market economics as a whole. Most management systems in China, for example, first began in SMEs and then became widespread (Fan 2003).

During the period of reform, the contribution of the state sector to GDP growth declined from 77 per cent in 1978 to 28 per cent in 1998 (Zhang 2005), while the contribution of private and other sectors to GDP growth increased from zero in the early 1980s to nearly two-thirds in the late 1990s (Anderson et al. 2003). Since the number of SOEs is less than 3.8 per cent of the total number of SMEs, including a large number of state-owned SMEs that are still in the ownership transition period (from SOE to non-SOE), therefore, the majority of SMEs in China are non-SOEs, which include PEs, COEs, FIEs, TVEs, and self-employed individuals. This new structure of ownership certainly influences the pattern of economic growth, increasing the importance of SMEs in the economy.

While there is a radical reshaping of the economy in terms of enterprise ownership, the mind-set of the Chinese government is also changing. It has largely de-emphasized ownership and extended supports to all sorts of firms, especially SMEs. For example, Jiang Qiangui, deputy minister in charge of the State Economic and Trade Commission, asserts that large-scale production is not the only means of profit (*Xinhua News Agency* September 20 2002). Liu Mingkang, head of the China Banking Regulatory Committee, stated that SME funding would be a priority as the financial system restructures (*China Daily* August 7 2003). Also, a 2003 law on SME promotion affirmed their role in the economy (*Xinhua News Agency* January 2 2003). Furthermore, counties and cities are giving much attention to the development of SMEs for economic growth. Beijing hopes to boost SMEs by increasing international cooperation (*People's Daily* November 24 2002), while Ji Yunshi, governor of Jiangsu, attributes the province's economic power mainly to SMEs (*Xinhua News Agency* September 20 2002).

In short, the significant position of SMEs in China suggests that their continued development is vital for the economy.

2.5 SMEs in Post-WTO China

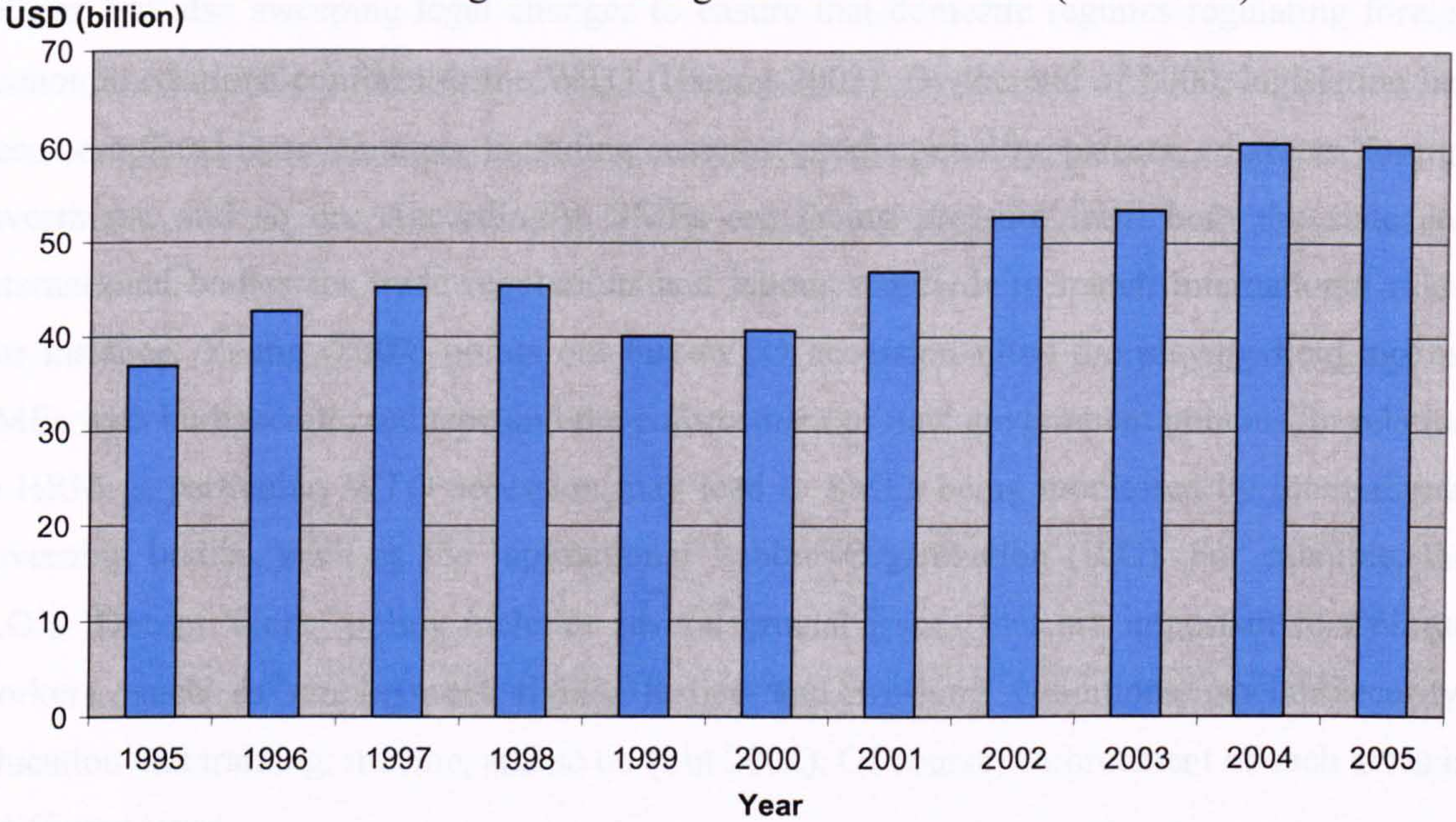
From 2002, China has adapted its institutional and legal system to comply with WTO-related undertakings. An important change is that China has been granted the right to act as a 'player of equal footing' in the arena of trade and on the world political stage (Hsiung 2003). Some commentators foresee large challenges for domestic enterprises, including increased competition, reform of laws, and social effects. Other observers point out that the threat to domestic companies is in reality reduced since the government will find ways to protect companies from foreign competitors.

Even if the advantages and disadvantages of WTO accession remain contested, its significance should not be understated since the implementation of WTO-related reforms will lead to far reaching changes in the economy. For example, WTO membership requires fundamental changes to trade and investment policies, such as the elimination of non-tariff barriers in industrial sectors and the opening-up of major service sectors. Indeed, there were FDI flows of more than 11 per cent in the five years following accession (Ma and Wang 2001). Therefore, SMEs, as one of the major economic forces in the economy, are facing enormous pressures, both external and internal, to change.

2.5.1 External Challenges

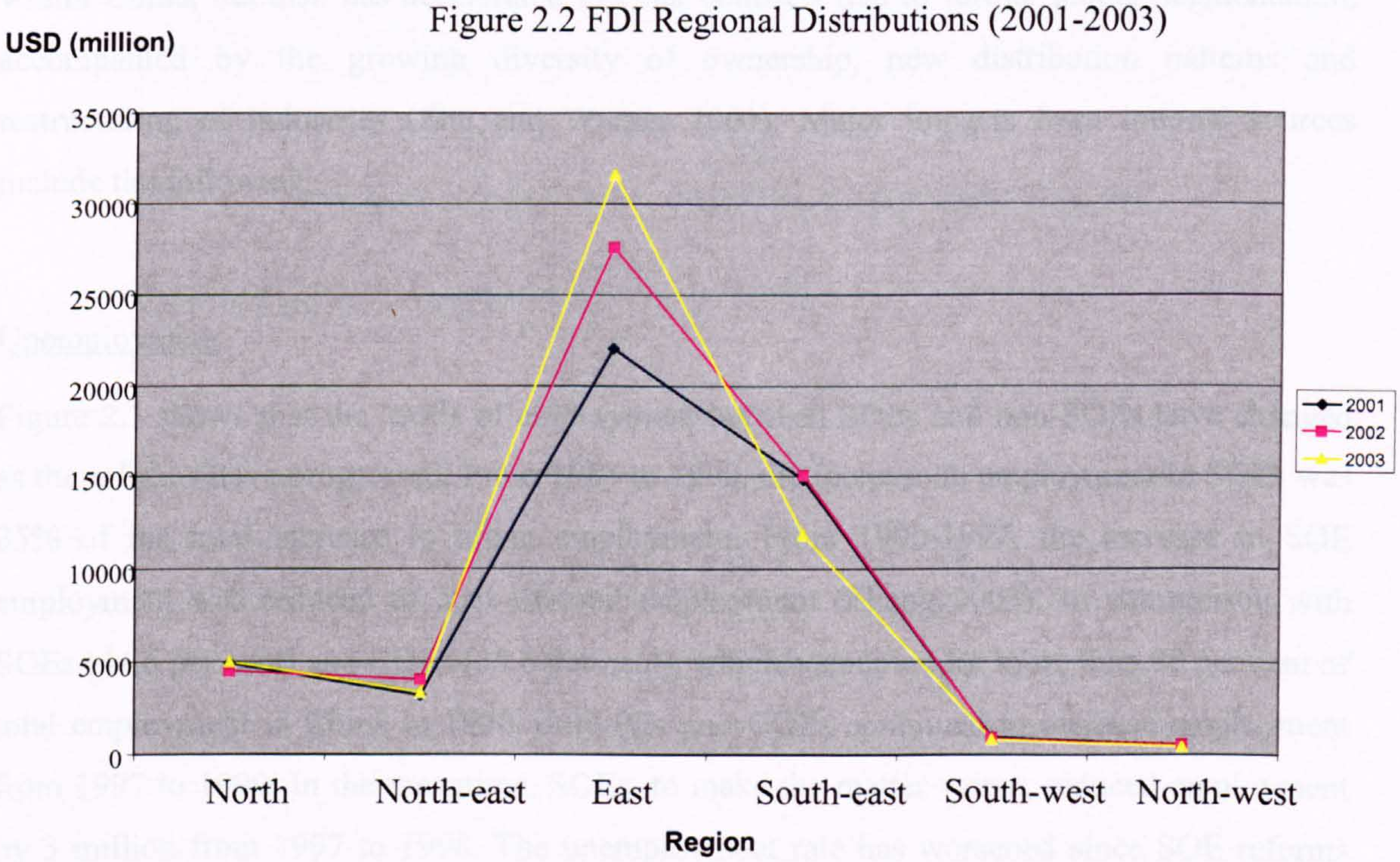
WTO accession speeded up economic development, but at the same time increased competition within China, both among and between domestic and FIEs. Some analysts commented that small-scale producers mostly viewed WTO membership more as a threat than an opportunity as China's tariff cuts increased competition (Nolt 1999). With SME development based mainly on economic liberalization, local government protection and the sclerotic transportation network, in addition, the recent rapid construction of highways, which provide an alternative to state-run railroads, has intensified internal competition as the barriers for new entrants into the market are removed (*Foreign Policy In Focus* December 1999). Further, WTO membership has helped reverse the decline in FDI since 1999 when chaotic rules and poor infrastructure had made profits difficult (*The Economic Intelligence Unit* 2003). After WTO accession, for instance, foreign investor interest revived. FDI rose by 15.1 per cent in 2001 to US$46.88 billion and in 2002 to over US$52 billion for the first time (*China Statistical Yearbook* 2001, 2004) (see Figure 2.1). Since then, FDI has continued to increase at a steady pace. However, the growth of FDI also has exacerbated internal competition, social inequality and regional disparities as most companies prefer to invest in the coastal, rather than inland, areas (see Figure 2.2).

Figure 2.1 Foreign Direct Investments (1995-2005)



Sources: Chinese Statistical Yearbook (1996-2006)

Figure 2.2 FDI Regional Distributions (2001-2003)



Sources: Chinese Statistical Yearbook (2004)

The challenging task for China after WTO accession has been not just economic policy reform, but also sweeping legal changes to ensure that domestic regimes regulating foreign economic relations conform to the WTO (Hsiung 2003). By the end of 2000, legislation had been completed in seven areas, including customs, product quality, patents, contracts, foreign investment, and so on. Accordingly, SMEs are facing pressure from both the state and international bodies for trade regulations and labour standards to match international rules. For instance, Yeung (2002) points out that WTO accession tilted the playing field against SMEs with bureaucratic red tape and the enforcement of new government policies. In relation to HRM in particular, WTO accession may lead to SMEs being monitored by international governing bodies, such as the International Labour Organization (ILO). For example, the ILO's 'Decent Work' policy includes several crucial issues that are important to Chinese workers, such as employment rights, justice and working conditions, social security, education and training, income, and so on (Lin 2002). Of course, enforcement of such areas is a different issue.

2.5.2 Internal Pressures

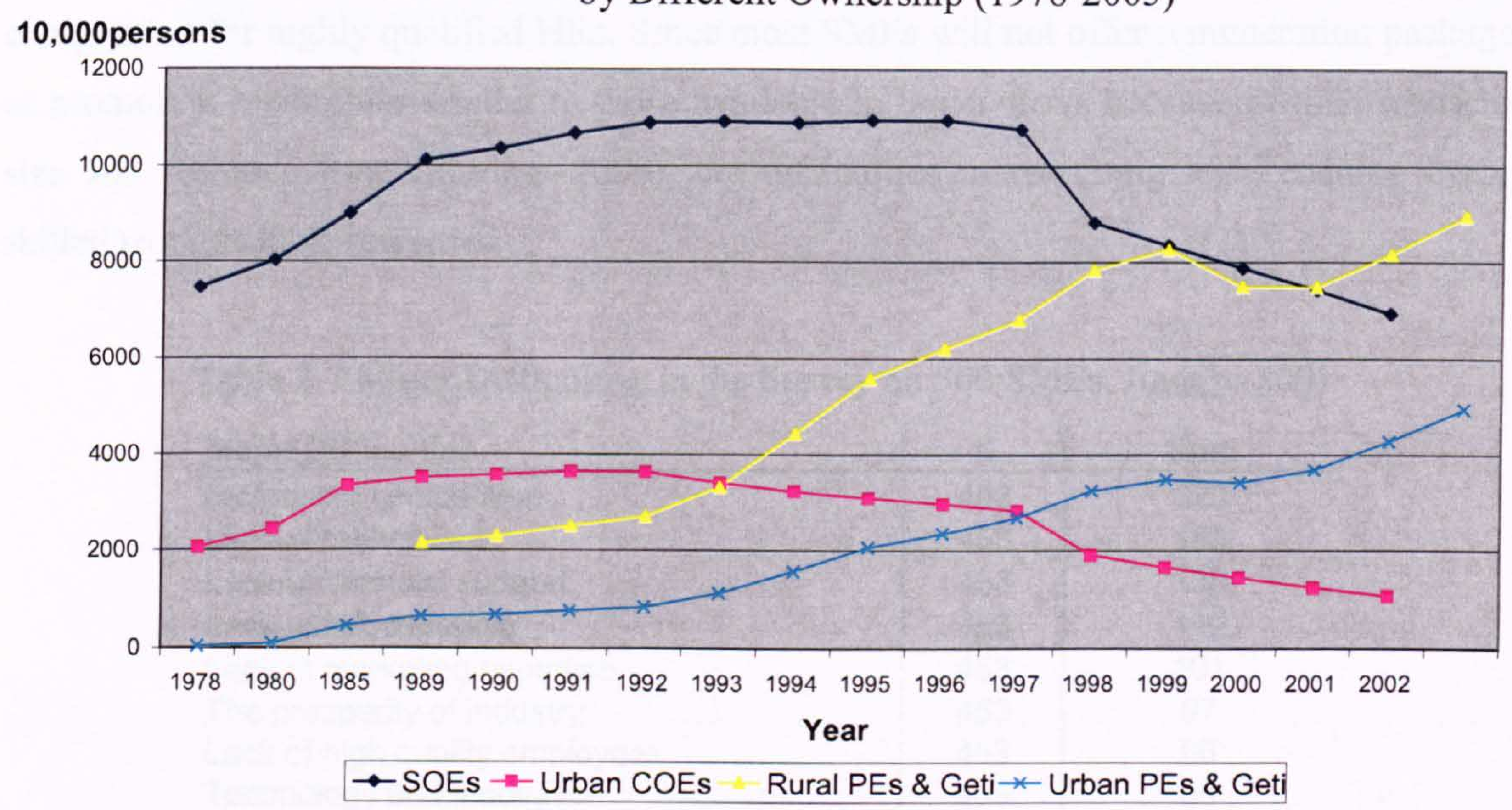
WTO accession not only has put external pressures on SMEs by increasing competition within China, but also has accelerated internal conflicts due to further labour segmentation, accompanied by the growing diversity of ownership, new distribution patterns and restructuring of industries (Zhu and Warner 2003). Major impacts from internal sources include the following.

<u>Unemployment</u>

Figure 2.3 shows that the levels of employment between SOEs and non-SOEs have changed as the reforms have progressed. From 1985 to 1990, the increase in employment in SOEs was 35% of the total increase in urban employment. From 1990-1997, the increase in SOE employment was reduced to 20% of total employment (Zhang 2005). In comparison with SOEs (54.6 per cent) and COEs (35.6 per cent), which accounted for more than 90 per cent of total employment in China in 1990, only PEs and COEs continued to increase employment from 1997 to 1999. In the meantime, SOEs, to make the matter worse, reduced employment by 3 million from 1997 to 1998. The unemployment rate has worsened since SOE reforms accelerated. According to official data, 26 million SOE employees were laid-off between

1998 and mid-2002 (*People's Daily* November 2002). The number of unemployed was 14 million in 2002 and the effective rate of urban unemployment was 7 per cent, with total unemployment of 22 million, exclusive of rural surplus labour (Yuan 2002). Simultaneously, the rate and number of re-employed deteriorated. Official data shows this collapsed from 45 per cent in 1998 to 27 per cent in 1999 and continued to decline, reaching 25 per cent by 2000. Hence, both the increasing number of unemployed and the declining number of re-employed have put more pressure on SMEs as they have become the major source to absorb the massive number of laid-off workers from the labour market.

Figure 2.3 Total Numbers of Employed Persons at the Year-end
by Different Ownership (1978-2003)



Sources: Chinese Statistic Yearbook (2003)

<u>Retention of talent</u>

By 2005, the population of China reached 1.3 billion (excluding Hong Kong and Macau), with 70.82 per cent workforce who were in employment. China also has one of highest labour participation rates in the world, which was 83.3% in 2004 (*Zhongguo Jinji Shibao* March 17 2006). However, a plentiful labour force does not mean a skilled workforce. Some commentators point out that China's large population just helps boost labour-intensive industry at low cost in the initial phase of reform (*People's Daily* June 2003). In addition, Zhu and Warner (2003) argue that the regulation of the Chinese labour market is insufficient to stipulate demand/supply of labour as it is still in a 'nascent stage'. As a result, there is a structural imbalance in the labour market, with a shortage of skilled professionals on one side, and an over-supply of unskilled labour on the other (Warner 2003). Statistics show that by the end of 2004, the increased working population of 752 million contained only 20.6 per cent of employees with qualifications above college level, which are equivalent to an 'A' level in the UK (*Zhongguo Jingji Shibao* March 2006). A survey of 500 SMEs in Jiangsu province, Eastern China has reported that one of the major difficulties in SMEs is to find and retain talented and qualified staff (see Table 2.7). The results also show that almost half of SMEs (42.4 per cent) in the sample have less than 5 per cent of employees with qualifications higher than 'A' level (see Table 2.8). Therefore, the unregulated labour market has led to sharper competition for highly qualified HRs. Since most SMEs will not offer remuneration packages or promotion hierarchies similar to those available in larger firms because of their restricted size and resource base (Marlow 2000), the difficulties in recruiting and retaining highly skilled workers have increased.

Table 2.7 Major Difficulties in the Survey on 500 SMEs, Jiangsu 2001

Major Difficulties	N	Sum
Increasing competition	453	320
Lack of technicians	453	165
Lack of financial support	453	139
Lack of HR expertise	453	112
Lack of marketing expertise	453	101
The prosperity of industry	453	97
Lack of high quality employees	453	96
Technology and innovation	453	36
Lack of financial expertise	453	13
Valid N (listwise)	453	

Source: Cunningham and Rowley (2007)

Table 2.8 Employee Qualifications in 500 SMEs, Jiangsu 2001

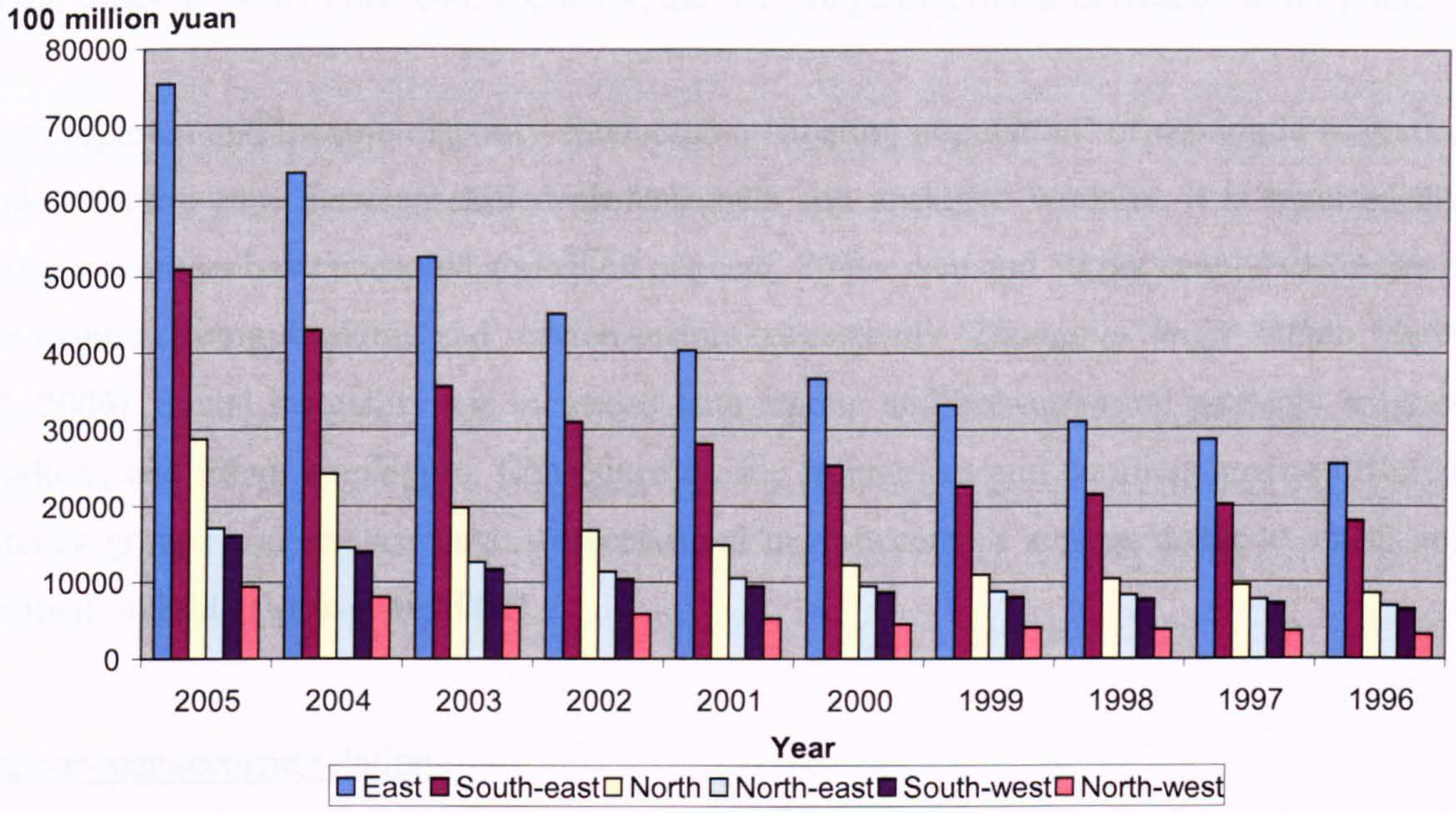
Employee Qualifications (Above A Level)		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	93	20.5	24.8	24.8
	2	159	35.1	42.4	67.2
	3	67	14.8	17.9	85.1
	4	56	12.4	14.9	100
	Total	375	82.8	100	
Missing	System	78	17.2		
Total		453	100		

Footnote: 1=<1%, 2=1-5%, 3=5-10%, 4=>10%

Source: Cunningham and Rowley (2007)

Social inequality

Figure 2.4 Regional Disparity (GDP 1996-2006)



Sources: Chinese Statistical Yearbook (2006-1997)

As the gap between the numbers of unemployed and employed widens, social inequality increases. On the one hand, regional disparity has increased (see Figure 2.4). Economic growth is much more rapid in coastal areas. During the 1980s and early 1990s, some of the most rapid rates of growth were recorded in the southern province of Guandong in general and in the Pearl River delta in particular, boosted by an influx of capital, technology and entrepreneurial skill from neighbouring Hong Kong. Since the early 1990s, Guandong and Fujian, the provinces directly to the north of Guandong, have benefited from Taiwanese investment – most private-sector analysts estimate that Taiwanese companies have invested more than US$100 billion in China since 1990. More recently, official attention has been focused on promoting the Yangtze Delta, with Shanghai as 'The Dragon's Head' (*The Economist Intelligence Unit* 2003) and Western provinces have been left behind. For example, the contribution to the total GDP of Jiangsu province (9.9 per cent of the total national GDP) was almost ten times that of Gansu province (1.1 per cent of the total national GDP) in 2001. On the other hand, income disparity among individuals has accelerated and has been exacerbated further after WTO accession. For example, high-income residents (20 per cent of the total of more than 40,000 urban families surveyed) owned 42.5 per cent of total wealth in 2000 (*South China Morning Post* March 12 2001). The income gap between the top and bottom 20 per cent income population grew from 4.2 times in 1990 to 6.9 times by 1996 to 9.6 times in 1998 (Yuan 2002). Clearly, the rich are getting richer in relation to the poor.

Both regional and income disparity encourage a 'floating population' of economic migration and widening gaps between skilled professionals and unskilled workers. It is reported that migrant workers have occupied almost 60 per cent, 80 per cent and 50 per cent of vacancies in the manufacturing, building and service sectors respectively (*Zhongguo Jingji Shibao* March 17, 2006). Social inequality has increased both among and between rural peasants, migrant workers, and urban employees. Consequently, the resentment and conflicts among different interest groups and regions have worsened and have become a serious threat to social and political stability (Mok et al. 2002).

<u>Labour-management relations</u>

The tensions among different interest groups are caused by not only social inequality but also the change of labour and management relations. Since the economic reforms, labour-management relations have changed from workers being seen as the 'master' ('zhuren') of enterprises to the more recent explicit relationship of managers and workers as employees in most firms (Zhu and Warner 2003). Consequently, as management has increasing power over issues such as recruiting, labour contracts, promotions, and so on, tensions with employees have emerged (Zhu and Campbell 1996). Large MNCs, such as Wal-Mart, Kodak, and Samsung, have been resisting attempts from the All-China Federation of Trade Union (ACFTU) to establish trade unions in plants, despite laws that allow them at the 'behest' of workers (McGregor 2005). In addition, competition and insecurity have become even more obvious. A report on Tangxia, Zhejiang province shows tensions among Party leaders, unions and the independent workers' association and its members (Pan 2002). Likewise, a study conducted by Mok et al. (2002) provides evidence of the strong sense of destitution and betrayal experienced by most state workers who used to be the 'labour aristocracy'. Official statistics show that worker unrest is becoming more frequent (Mok et al. 2002). For example, in 1998, there were over 627 cases of direct attacks on government and party organisations, with 459 involving violence, which led to 78 deaths and over 2,230 injuries, with at least 800 of these to police or government officials (*China Labour Bulletin No 7* 1999). As SMEs are highly sensitive to changing tendencies and environments (Siu 2000), the volatile socio-economic situation creates more unpredictable elements in their day-to-day survival.

Overall, the above-mentioned problems are mutually affected and inter-related. They add to the difficulties of, and increase the pressure on SMEs and encourage them to compete successfully in the market.

2.6 Conclusions

This chapter provides an outline of SMEs in China. The definitions, historical development and current situation of SMEs in a socio-economic environment are examined and discussed. The study indicates that SME development is strongly associated with key economic reforms. The performance of SMEs is not determined only by environmental factors in the market economy, but also by other factors, such as institutional determinants. Government intervention is still a major force in SMEs' development. The importance of SMEs is re-confirmed by the shifting role of non-SOEs in the economy, and the changing mind-set of the government. In summary, SMEs are vital to the nation's economy. Yet, the increasing competition after WTO entry brings more challenges and difficulties to SMEs. Hence, how to gain a sustained competitive advantage so as to enhance firm performance becomes vital for SMEs' future development.

CHAPTER THREE

Small and Medium Sized Enterprises and Human Resource Management

3.1 Introduction

This chapter provides an overview of the development of HRM in SMEs. First, the chapter examines the theoretical debate about the nature and significance of the concept of HRM. It probes the meaning of HRM by charting its origins and summarizing its central themes, and by comparing and contrasting HRM with traditional PM. The paradox and contradictions in HRM are also re-addressed.

On the one hand, the chapter emphasizes the integration between HRM and strategic management as not only is it the key to improving organisational performance, but also it demonstrates a distinctive difference between PM and HRM. On the other hand, the chapter asserts that the transition from PM to HRM is not achieved quickly and easily, and the US-based concept of HRM is culturally limited and too narrow.

Second, the chapter explores the various ways in which HRM is seen as critical for the business success of SMEs. The importance of HRM in SMEs is addressed by looking at the significant role of HRs in SMEs' development, and by examining the nature of HRM in SMEs. The differences in HRM between larger firms and smaller enterprises are discussed, and the key characteristics of HRM in SMEs are identified. This leads on to a review of two theories that are important in analyzing HRM in SMEs, namely, the resource-based view (RBV) and the institutionalism view. The RBV theory reinforces the key role of HRM in an organisation by explicating the link between HRM and organisational outcomes. The strengths and weaknesses of the RBV model are discussed on both theoretical and empirical grounds. However, the institutional theory offers indispensable elements for explaining variations in the study of HRM in SMEs in different institutional and cultural settings, such as the ones in China.

Finally, the chapter concludes that the study of HRM in SMEs needs to adopt the wider perspective of a multi-level model and a more comprehensive view of the actors in the system, if it is to become a theory that can stand the test of international application (Brewster

1994). For this, the development of a national HRM model, which fits in its own cultural norms and national context, is encouraged.

3.2 HRM Defined

3.2.1 Historical Context of HRM

Most HR scholars have acknowledged that the rise of HRM coincided with a significantly changed economic and political context (for example, Beer et al. 1985, Kochan et al. 1986, Keenoy 1990, Guest 1987 1991, Rowley 2003). In the US, where we can see the origins of HRM, the major stimulus for its emergence came from a set of external pressures on industry. The most important of these were the increasing competition in the national and international marketplace combined with anxieties about the slow rate of productivity growth in US industry (Guest 1990). Focusing on the UK, similarly, the growth of HRM is difficult to separate out from the strategies adopted by management in their attempts to cope with the economic consequences of recession and renewal (Edwards 1987, Bassett 1986, 1988).

For instance, Table 3.1 presents a brief summary of the historical development of PM in the UK from the early 1900s until the 1980s. It shows the central values that have informed managerial orientation during this period. It demonstrates that the major concern of HRM remains largely the same in the historical development of personnel and HR work, with its focus on increasing organisational efficiency and/or effectiveness. It also illustrates the point that the change from PM to HRM reflects changes in organisations and in society (Legge 1995, Bratton and Gold 1999, Tyson and York 2000). In other words, the shift from PM to HRM is not just a matter of semantics, but reflects the ascendancy of a new political ideology and the changed conditions of national and global capitalism (Bratton and Gold 1999).

However, as Storey (1989), among others, observes, the pace, depth and character of the changes from PM to HRM make any assessment of the rise and impact of HRM on employment relations and work values highly complex and problematic. For example, some HRM researchers argue that the change from PM to HRM in the UK is just a fashion, partly as the tendency during the decade was to look to the US as a model of good practice in all fields (Guest 1990). In addition, HRM has been embraced as the saviour of professional PM and as the advertising logo for the academic pursuit of 'people-management' (Keenoy 1990). Thus, HRM has come to embody the symbolic iconography on the surface of the 'new' people management (Dunn 1990).

Table 3.1 Historical Development of PM/HRM in the UK

Timescale	The PM/HRM development	Major focus of PM	HRM-performance
The early 1900s	The earliest attempts at Welfare policies emerged	To 'achieve higher output by control of sickness and absenteeism, and by the early resolution of grievances and problems'.	The initial link of HRM-performance was exemplified by the large Quaker employers, who showed the compatibility between a good working conditions and profitability.
1914-1918 (World War I)	Welfare had been developed due to the large increase in the number of welfare officers.	Developing precise analytical schemes to select and reward an individual so as to motivate, control, and improve the productivity of entry-level employees.	The connection between efficiency and welfare was fully established as the controls became well organized and effective (e.g., The Munitions of War Act 1915 and its amendments).
1920s-1930s	The name 'welfare' was replaced by PM.	A separate, specialist personal department was introduced as a response to the problem of control.	The link between efficiency and welfare was being broaden to include not only the physical environment of work, but activities aimed at getting a good fit between the individual work and particular job.
1930s-1940s (World War II)	The demand of HR specialists was increased, as many organisations were anxious to maximize labour productivity and foster industrial peace.	Improve individual's productivity by experimenting with group (e.g., Mayo's work at the Hawthorne plant)	The link between PM and organisational efficiency had been asserted.
1950s-1970s	HR specialists attempt to achieve an open flexible organisation so as to adapt effectively in a changing world.	Highlighted individual needs and motivation; Work in performance appraisal and training progressed.	The link of PM-efficiency was extended more broadly, and the emphasis of PM had been changed from efficiency to effectiveness.
1980s onwards	PM had been replaced by HRM as one of possible solutions to economic crisis in the early 1980s.	Forces of global competition, worldwide labor availability, business ethics, and environment are the major focus of HRM.	The relationship of PM-effectiveness has modified to the link of HRM-performance.

Moreover, other HR researchers point out that, in reality, there is little evidence to support the view that HRM is a general trend in the UK (Storey 1995), even in the US (Arthur 1994, Delery and Doty 1996, Hornsby and Kuratko 2003). For example, the findings of the Third Workplace Industrial Relations Survey (WIRS3) (Millward et al. 1992) revealed that in many establishments the framework of traditional industrial relations (IR) was intact while, in so far as it could be ascertained, HRM had yet to gain a foothold. In addition, the cumulative evidence indicates that the compliance-based system of control, which is closely associated with PM, was still the key mechanism in the management agenda in the early 1980s and 1990s (Dawson and Webb 1989, Atkinson 1984, Pollert 1988, Kochan and Ostermann 1994, Bach and Sisson 2000).

Nowadays, the value of HRM practices remains a subject for debate among managers, although it has become clearer that there is an increasing use of HRM in organisations (Black and Lynch 2000, Osterman 2000, Cappelli and Neumark 2001). For instance, an empirical study on the effectiveness of HRM among hospitals, hotels, and local government in the Netherlands reports that 'the introduction of employee participation and forms of decentralization is often misused by top management to reduce organisational levels and is therefore in essence nothing but a cost-reduction strategy' (Boselie et al. 2003:1425). Ichniowski and Shaw (2003:156) note that 'choosing the best HRM practices for managing a firm's workforce remains a puzzling problem for managers as well as economists'.

Further, the transferability of HRM has been challenged by a number of international HR researchers. On the one hand, as Guest (1990) argues, the attraction of HRM to US industry is due in part to the linkage between HRM and corporate success, but also because the underlying values, which reflect key elements of the 'American Dream', reinforce an ideology that has a strong appeal for many US managers. Hence, it is questionable whether the values underlying HRM are shared with managers from other countries, including those in the UK (Brewster and Larsen 1992, Easterby-Smith et al. 1995, Clark and Mallory 1996, Sparrow and Budhwar 1997, Siu 2000, Storey 2004). Also, the evidence shows that the 'American Dream' is not applied in all types of organisations even in the US (Arthur 1994, Delery and Doty 1996). For example, Hornsby and Kuratko (2003) argue that the HRM transfers from large firms to small enterprises in the USA are impeded by law and cultural differences. On the other hand, many scholars have ascertained that the role of culture and institutions external to the firm in the industry, region or country, which support and inhibit the further development of HRM, is crucial in understanding the HRM concept in other continents (Purcell 1993, Rowley and Bae 2002, Rowley and Benson 2002, Boselie et al. 2003, Watson 2004). For instance, Pudelko (2005, 2006) found that the relevant socio-economic context is highly pertinent for the establishment of an HR system among 500 large firms from USA, Germany and Japan. Likewise, the evidence drawn from case studies by Ferner and Quintanilla (1998) shows that the Anglo-saxonization of international HRM exists in the companies, but appears to be taking place in a distinctively German manner. By using narrative analysis on Moddens Foods – a small UK family business - Watson (2004) also argues that HRM practices can be understood only if they are located within the 'macro' structures and processes operating at the political-economic levels. Again, Thang et al. (2006) emphasize that the import of foreign practices demands a careful consideration of their compatibility with Vietnamese contexts and cultural values.

Therefore, the previous literature and empirical studies imply that the transition from PM to HRM is limited (Storey and Sisson 1990, Paauwe and Boselie 2003, Chan et al. 2004). It also indicates that the shift from PM to HRM may be a response to organisational problems or external pressures, rather than stemming from any belief in HRM and its values (for example, Chiang 2005).

3.2.2 The Debates – PM versus HRM

It is possible to argue that there are two different views on people management in an organisation. The 'hard' version emphasises the idea of people as a 'resource' (Storey 1992). It views HRs as being the same as other resources, such as land, machines or capital (Bratton and Gold 1999). The practical implication of this view of the concept is for firms to manage HR in a formally rational manner, similar to any other economic variable (Legge 2005). In contrast, the 'soft' version lays stress on the term 'human', which sees HRs as a valued asset and a source of competitive advantage through an improved use of employees' skills and abilities (Bratton and Gold 1999). In this scenario, managers need to gain the commitment and loyalty of employees so as to ensure that they deliver their best performance (Bratton and Gold 1999). The rationale behind this is based on much earlier work, such as the organisational behaviour theories advocated by Maslow (1943) and Herzberg (1966), and by McGregor's Theory X & Y (1960) (Tyson and York 2000).

These two different points of view in terms of how to manage HRs in an organisation can be placed in the debate on the difference between traditional PM and HRM. A starting point of this approach is the work of Walton (1985), who contrasts the "compliance" and "commitment" philosophies underpinning the different ways of managing HRs. In his conceptual model, Walton (1985) defines the 'traditional work system' as a set of narrowly defined jobs, the specialization of employees, the close supervision and monitoring of employees by management, no career development or employee involvement, a hierarchical structure, and the centralization of power. In comparison, the 'high-commitment work system' is characterized by broadly defined jobs, job rotation, peer evaluation, a flat structure, a learning organisation and the decentralization of power (see Table 3.2).

Table 3.2 Traditional versus High-commitment Work Systems

'Traditional Work System'	'High-commitment Work System'
Narrowly defined jobs	Broadly defined jobs
Specialization of employees	Rotation of employees through jobs
Pay be specific job content	Pay by skill mastered
Evaluation by direct supervision	Evaluation by peers
Work is closely supervised	Evaluation by peers
Overtime or transfer assigned by rule book	Team assigns members to cover vacancies in flexible fashion
No career development	Concern for learning and growth
Employee as individual	Employee as a member of a team
Employee is ignorant about business	Teams run a business; business data shared widely
Status symbols used to reinforce hierarchy	Status differences minimized
Employees have little input	Broad employee participation

Source: Walton in Beer et al. (1984)

Building on Walton's model, Guest (1987) and Storey (1992) developed the major models of PM and HRM in the UK. Guest compares HRM and traditional PM by identifying the major assumptions underpinning PM and HRM, while Storey differentiates between HRM and traditional PM by making a classificatory matrix of 27 points of difference. Although there is a danger in comparing normative models of HRM with descriptive models of the practice of PM (Bach 2005), Guest (1987: 507) concludes that there are 'significant differences between the 'stereotypes' of PM and HRM'. According to the stereotypes (Guest 1987) (see Table 3.3), the most significant difference between HRM and PM is that HRM integrates HRs into strategic management in that it seeks behavioural commitment to organisational goals; the perspective is unitary with a focus on the individual; it works better in organisations that have an 'organic' structure; and the emphasis is on a full and positive utilization of HRs.

Table 3.3 Stereotypes of PM and HRM

	PM	HRM
Time and planning perspective	Short-term reactive *ad hoc* marginal	Long-term proactive strategic integrated
Psychological contract	Compliance	Commitment
Control system	External	Internal
Employee relations	Pluralist collective low trust	Unitarist individual high trust
Organising principles	Bureaucratic/mechanistic centralized formal defined roles top-down	Organic devolved/decentralized flexible roles bottom-up
Roles	Specialist/professional	Largely integrated into line management
Evaluation criteria	Cost-minimization	Maximum utilization (human asset accounting)

Source: Guest (1987)

By and large, the literature suggests that moving from a 'control to participation' and 'compliance to commitment' mindset is an important part of the transformation from PM to HRM. In addition, the major difference between HRM and traditional PM seems to be regarding integration, strategy, and implementation (Rowley 2003, Bratton and Gold 1999, Legge 1995, Guest 1987). In other words, the distinction between HRM and PM is that HRM is a key part of senior management decision-making.

3.2.3 The Content of HRM

While a strategic role for HRM has been highlighted by a number of studies (Boxall and Purcell 2003, Rowley 2003, Guest 1987, 1997), the content of HRM is dubious. On the one hand, the notion that a system of HR practices may be more (or less) than the sum of its parts appears in the discussions of external and internal fit, bundles, contingency factors, configurations, and the resource-based view (Boxall 1998, 2001, Guest et al. 2000, Wright and Snell 1998, Guest 1997, Delery and Doty 1996, Youndt et al. 1996, Becker and Gerhart 1996, Huselid 1995, Dyer and Reeves 1995, Arthur 1994, Lengnick-Hall and Lengnick-Hall 1988). On the other hand, an identifiable set of best practices for managing employees that have universal, additive, positive effects on organisational outcomes is suggested by other studies (Pfeffer 1994, 1998, Kochan and Osterman 1994). In spite of the debate between 'best fit' and 'best practice', overall, the literature shows that the majority of studies define HRM in terms of HR practices or systems/bundles of practices. In addition, the findings of some notable empirical studies demonstrate that not only is there a link between HRM practices and organisational outcomes, but also that the relationship is positive (see Table 3.4).

Table 3.4 Overview of Major Empirical Research on HRM and Organisational Outcomes

Author(s) (Year)	Nature of Sample (Industry/Sector)	Main Findings
Youndt and Snell (2004)	US: public, single business unit organisations (Cross sectional)	Consistent support for the notion that HR systems are fundamental in the development of intellectual capital.
Den Hartog and Verburg (2004)	Netherlands: 175 organisations (Cross sectional)	A significant impact of HRM system on several performance outcomes.
Bae et al. (2003)	South Korea, Thailand, Singapore, and Taiwan: 680 larger companies (Cross sectional)	High performance work systems (HPWS) have the potential to be effective in East and Southeast Asia.
Laursen and Foss (2003)	Danish: 1900 manufacturing and non-manufacturing firms	An adoption of a package of complementary HRM practices could be expected to impact on innovation performance to a much higher degree.
Bjorkman and Fan (2002)	China: 62 large JVEs (Manufacturing)	A positive relation between firm performance and the extent to which firms use a 'high performance' HRM system as well as the degree to which they engage in the integration of HRM and firm strategy.
Richard and Johnson (2001)	US: 73 banks (Banking)	HRM effectiveness significantly reduces employee turnover and increases overall market performance assessment.
Bae and Lawler (2000)	South Korea: 138 firms with at least 50 full time employees (Cross sectional)	Firms with high scores on valuing HRM and people as a source of competitive advantage were more likely to have high-involvement HRM strategies, which had positive effects on firm performance.
Lee and Miller (1999)	South Korea: 129 single-business enterprises (Manufacturing)	Dedicated positioning strategies appear to be executed more effectively where organisations exhibit a high level of commitment to their employees.
Tyson (1999)	UK: 4 large firms (Manufacturing and Service)	HRM contributes to business through integration, consultancy, and evaluation.
Ichniowski et al. (1997)	US: 36 steel production lines	A positive link between the use of a system of HRM practices and productivity.
Delaney and Huselid (1996)	US: 590 profit and non-profit firms (Cross sectional)	Positive association between a system of HRM practices and firm performance.
Delery and Doty (1996)	US: 114 banks (Banking)	A stronger relationship between a bundle of HRM practices and measures of financial performance.
Robert (1995)	US: 3000 businesses (Cross sectional)	Business can increase their profitability by up to 15% by employing HR practices.
Huselid (1995)	US: 986 US-owned firms (Cross sectional)	The use of HPWS has a statistically significant impact on both intermediate employee outcomes and short- and long-term measures of corporate financial performance.
Arthur (1994)	US: 30 mini-mills in the steel industry (Manufacturing)	The mills with commitment systems have higher productivity, lower scrap rates, and a lower employee turnover than have those with a control system.

Table 3.5 Best HRM Practices based on Previous Studies

Best HR Practices	Extensive recruitment and selection	Training	Self-managing work team	Performance-related pay	Internal career opportunities	Performance appraisal	Employment security	Information sharing	Employment participation
Ichniowski et al. (1989)	y				y	y		y	y
Von Glinow (1993)	y	y			y	y			y
Arthur (1994)		y						y	y
Pfeffer (1994)		y	y		y		y	y	y
MacDuffie (1995)	y	y	y	y					
Huselid (1995)	y	y			y	y		y	y
Delery and Doty (1996)		y			y	y	y		y
Delaney and Huselid (1996)		y					y		y
Youndt et al. (1996)	y	y		y		y			
Ichniowski et al. (1997)	y	y	y				y		y
Wood and de Menezes (1998)			y	y		y		y	
Huang (2000)	y	y		y		y			
Guest et al. (2000)	y	y		y			y	y	y
Richard and Johnson (2001)			y					y	y
Laursen and Foss (2003)		y	y	y				y	y
Den Hartog and Verburg (2004)				y	y			y	
Michie and Sheehan (2005)		y		y	y	y	y		y

While both of these lines of research have demonstrated that HRM activities can have a positive influence on organisational outcome, neither approach has given us a very clear understanding of the content of HRM (Godard and Delaney 2000). There are differences not only in labels, such as HPWS (Guest 1997), 'high involvement work practice' (Applebaum and Batt 1994), commitment HR systems (Arthur 1994), 'flexible work practices' (Osterman 1994) or 'cooperative and innovative HRM practices' (Ichniowski et al. 1996), but also between the individual HR practices that construct the HRM system as a whole (see Table 3.5). For example, Arthur (1994) places a low emphasis on variable pay in his list, whereas the 'best practices' list defined by Huselid (1995) and MacDuffie (1995) places a strong emphasis on variable pay. Therefore, as Marchington and Wilkinson (2002) argue, there is a difficulty in drawing generalized conclusions because of the differences in various HRM practices, in the proxies deployed for each of these practices, in the methods to collect data, and in the respondents from whom information was sought.

Second, not only are lists of 'best practices' inconsistent among each model, but also there are different claims regarding which goals and interests the 'best practices' serve (Boxall and Purcell 2000, Marchington and Grugulis 2000). For instance, in the case of downsizing, Boxall and Purcell (2000: 190) raise the question of 'how to decide whether a practice is good or bad, if the practice is good for corporate returns but bad for workers, or the practice is good for executives but not good for either shareholders or workers?'. Another problem for an HPWS is associated with a universal prescription in best practice thinking. A conflict emerges between the notion of universalism and a sustained advantage, as a sustained competitive advantage means that only limited numbers of firms can achieve it and others will be disadvantaged accordingly, whereas a universal prescription advocating identical HRM practices in all firms means all will benefit from it.

Third, a best practice approach discounts cultural norms and the unique history of different societies, thus leading to different best methods of labour management (Boxall and Purcell 2000). For example, Wever's (1995) study of the different approaches to workforce governance in the US and Germany and their relative impacts on competitiveness, suggests that German firms should not abandon their commitment to collectivism in pursuit of the kind of more individualistic, more flexible labour market implicit in much US 'best practice' thinking. Likewise, Wood (1996) discovers that salaried pay rather than the American notion of contingent pay – bonus and piece-rate systems, serves firms' objectives for high level employee involvement in the UK much better. Further, even within one country, sectoral boundaries are another key issue that cannot be ignored (Delery and Doty 1996, Arthur 1994). For instance, although Delery and Doty's (1996) study of bank loan officers shows a positive link between performance and HR 'best practices', they note that 'the results may not be valid in other regional locations and other industries' (p. 829).

To clarify the notion of 'best HR practices', therefore, Becker and Gerhart (1996) make a distinction between 'best practice' in general and 'best practice' in a specific situation (see Table 3.6). In their three-levels of an HR system, Becker and Gerhart (1996) suggest that it is more probable to find a 'universal' best practice effect in the 'architecture level' of an HR system, representing basic assumptions and principles. In the practice level, conversely, the selection of 'best practices' is firm specific since the methods firms adopt to reach their performance goals are different (Becker and Gerhart 1996). In other words, on the one hand, there is no doubt that all firms are better off when they pursue good labour management (Boxall and Purcell 2000, Youndt et al. 1996). In this case, for example, the assumption behind the HRM-performance link is that a system of HRM practices can enable firms to create a sustained competitive advantage, and thereby achieve high organisational performance. On the other hand, HR practices may be different in each case at the firm level, as they are influenced by different societal, sectoral and organisational factors. Then, from a micro-theoretical perspective, a range of lists of 'best practices' is more likely to happen. From a macro-theoretical viewpoint, the universalistic 'best practice' of HRM also exists. Therefore, the key point in HRM research is to decide from which level to evaluate 'best practice' (Becker and Gerhart 1996).

Table 3.6 Implication of Best Practice for HR system Structure and Effects

Concept	Example	Effect
System architecture: Guiding principles	HRM have a strong link with performance.	Generalized or universal
Policy alternatives: Mix of policies consistent with architecture and appropriately aligned internally and externally	Mix of performance appraisal, training, comprehensive training and incentive pay	Contingent on appropriate firm-specific alignment
Practice process: Best-in-class implementation and technique given appropriate decisions at architectural level	Team-based incentive pay, 360-degree performance appraisal	Contingent on particular policy alternatives

Source: adapted from Becker and Gerhart (1996)

3.2.4 Critical Evaluations

While some researchers conclude by suggesting that there is a qualitative difference between HRM and traditional PM (Guest 1987, Storey 1992, Bratton and Gold 1999), other HRM scholars argue that there is little difference between PM and HRM. Keenoy (1990), one of the most eloquent and persuasive critics, has claimed that HRM is more "rhetoric" than "reality". He argues that there is little support for a difference in terms of the evidence of the shifts in the employment relationship (Keenoy 1990). In addition, an inconsistency in the application of HRM strategies reflects contradictory tendencies with different forms of production patterns, such as commitment versus control strategy (Bratton and Gold 1999). For example, Edwards et al. (2006) observe that the generation of commitment is not seen as a dissolution of conflict between management and worker, but as a particular control strategy.

Moreover, there are implicit contradictions in HRM models since traditional PM and HRM seem interconnected. For instance, Legge (2005) points out that it is quite feasible that hard HRM variants can contain elements of soft practice, while the criticism that can be made of soft variants is that they can be held to deliver hard outcomes in terms of the tightness of the fit with the business strategy that is sought. In addition, at the surface level, Keenoy (1990) argues, ambiguities are contained in the conceptual language of both the 'hard' and 'soft' model. For example, in the 'hard' HRM model, the meanings of 'integration' can be interpreted as 'internal fit' combined with 'external fit'. Thus, the contradiction is raised, as the focus of 'external fit' is a contingent design of HRM policy, whereas 'internal fit' emphasizes an 'absolutist' approach to the design of employment policy (Legge 1995). At a deeper level, Legge (2005) continues to argue that HRM is confronted by a contradiction of capitalism, that is, 'labour' can improve or undermine the interests of dominant groups in a capitalist society.

Further, the paradoxes remain in the results of HRM practices. Legge (1995) mentions the probable incompatibility of creating an organisational culture that attempts to pursue both individualistic and teamwork policies at the same time. Bratton (1992) also points out that the individual performance-based reward has the result of increasing individual productivity while reducing a work group's synergy. Again, Watson (1986) argues that the design of HRM is to make employees more 'governable' and to bring order and stability to organisational life. Yet, HRM practices can also develop into sources of disorder or instability.

Fourth, a conflict among the goals of HRM has emerged (Dyer 1984, Guest 1987 1997, Boxall and Purcell 2003). For example, it seems obvious that the major goal of HRM is to maximize organisational performance, and hence achieve economic success (Guest 1987 1997, Boxall and Purcell 2003). Nevertheless, some HR scholars question the values underlying HRM as the evidence indicates that simple assumptions about HRM being linked to economic success are inadequate (Wright and MacMahan 1992, Brewster 1994, Legge 1998). Moreover, in practice, they argue that the goals of HRM are not necessarily mutually compatible (Legge 1989 1995, Purcell 1989 1993). Further, it is clear that managements will not necessarily accord equal status, far less equal priority, to each of the goals. In some circumstances, additionally, the achievement of one goal will inevitably depend upon the sacrifice of another (Keenoy 1990). Furthermore, the extent to which goals are made explicit varies and it is inevitable that a firm's HR goals will be accompanied by various kinds of strategic tensions or paradoxes (Legge 1998, Boxall and Purcell 2003); for instance, the need to pursue productivity and flexibility triggers a strategic tension around change management in the firm (Osterman 1987).

Even though there is an increasing use of a broader, more encompassing definition of HRM (Boxall and Purcell 2003, Rowley 2003, Bach 2005), it has been criticized as being too broad to highlight any distinctive features and values underpinning HRM (Bach 2005). Therefore, the discourse on HRM remains full of ambiguity and uncertainty. As Storey (1989, 1995) argues, the concept of HRM is shrouded in managerial hype and its underlying philosophy and character is highly controversial since it lacks precise formulation and agreement as to its significance.

3.3. HRM and SMEs

3.3.1 The Nature of HRM in SMEs

3.3.1.1 'Beautiful' versus 'bleak'?

It is important to note that within the existing research there are considerable differences of opinion and interpretation regarding HRM in SMEs. For example, the literature on HRM in SMEs can be located within a dichotomy of stereotypes. On the one hand, some researchers argue that working relationships in SMEs are much more harmonious than are those in larger firms since SMEs provide a better environment, which has easier communication, greater flexibility and lower levels of conflict (Wilkinson 1999). Conversely, other scholars claim that HRM as applied in SMEs is a 'bleak house' (Sisson 1993, Bacon et al. 1996). Here flexibility is more akin to instability, better communication is authoritarianism and conflict is not low but expressed through more individual means (Cully et al. 1998, Wilkinson 1999). Indeed, these contradictory views have been questioned (Ram and Holliday 1993, Bacon et al. 1996, Hill and Stewart 2000, Storey 2004, Harney and Dundon 2006). As Ram (1991:601) notes, people management in SMEs may be 'complex, informal, and contradictory' instead of simply either pleasant or repressive.

3.3.1.2. A 'scaled-down' version of a large firm?

Some scholars argue that an SME is a specific entity that is a particular instance separate from the large firm (Behrends 2007, Storey 2004, MacMahon 1996). For instance, Harney and Dundon (2006) found that HRM in SMEs (<250 employees) was not the coherent set of practices typically identified in the literature. In a study of HRM practices, Cassell et al. (2002) similarly argue that the key HRM practices seen in large organisations, such as recruitment and selection, training and incentive pay, are rarely in evidence in SMEs (<500 employees). The research on three small professional firms (<15 employees) by Ram (2000) illustrates that best HRM practices are irrelevant and inappropriate, and viewed as little more than an administrative requirement for marketing purposes rather than an important contributor to organisational performance.

Nevertheless, other authors reject the existence of a specific nature differentiating SMEs from large firms, for example, include Watson (1995:34) who claims that 'the essential nature of the management task is the same in all firms'. Likewise, in the study of small Australian information firms (<100 employees) Barrett (1999) concludes that, in reality, small firms are based on the same 'cash-nexus' (Curran and Stanworth 1978: 629) relationship as the one seen in large firms. By using case study analysis, Torres and Julies (2005) also challenge the specificity paradigm in SME management. Based on interview results with forty employees, they argue that under certain circumstances, specific SME management practices tend to disappear to be replaced by practices more closely associated with large organisations (Torres and Julies 2005). Again, in a comparative study between large and small manufacturing firms (<500 employees) in the USA, Deshpande and Golhar (1994) observed that many personnel practices (i.e. sources of recruitment, selection instrument) of small and large firms are similar. Further, some studies show that firm size is superseded by other factors, such as industrial subculture (i.e. information industry in Barrett 1999, service sector in Ram 2000), company strategy (i.e. training and development in Gray and Mabey 2005), familial influences (i.e. household relations in Ram 2001, familial control in Dundon et al. 1999), and socio-cultural impacts (i.e. Chinese cultural values in Siu 2000).

Hence, the literature seems to suggest that the differences in HRM practices between large firms and SMEs 'are of degree – a relative rather than an absolute absence of structure' (Cully et al. 1999: 272).

3.3.1.3 The characteristics of HRM in SMEs

Although the status of SMEs in the management literature has been contested, many HR researchers conclude that SMEs tend towards an informal HRM approach (see Table 3.7). They argue that this approach reflects key characteristics of SMEs themselves, such as flexibility, informality, external uncertainty and innovation (Storey 1994, Hill and Stewart 2000, Gray and Mabey 2005). For example, Marlow's (2000) investigation of 64 SMEs (<210 employees) reveals that the firms rely largely on an informal and flexible approach to strategic HRM activities because of external uncertainty due to market volatility. Hill and Stewart (2000) claim that the nature of HR development in SMEs (<250 employees) mirrors the characters of SMEs themselves, such as reactive, informal, and short-term in outlook. The study of Chinese SMEs (<500 employees) in Hong Kong by Siu (2000) illustrates that Chinese SMEs are highly sensitive to changing tendencies and environments, and this sensitivity is deeply reflected in their day-to-day managerial practices. Due to resource constraints, time limitation, and owner identification, again, the nature of informal working relations in SMEs is confirmed by a number of studies (Kinnie et al. 1999, Marlow 2000, 2002).

While the literature suggests that informality is the basis of the nature of HRM in SMEs, the dynamic of informality has been highlighted by many researchers (Ram et al. 2001, Barrett and Rainnie 2002, Harney and Dundon 2006). In a survey with 464 venture firms in South Korea, for instance, Bae and Yu (2005) argue that SMEs need a certain level of formalization so as to achieve efficiency and system-based operations, although formalization may inhibit peoples' creative activities and entrepreneurial initiatives. By analyzing 338 workplaces in the private sector in the UK, Bacon and Hoque (2005) conclude that informality is widespread but not universal. Kotey and Slade's study on 371 small firms (<100 employees) in Australia shows that HRM remains informal in the majority of firms, while a significant percentage of SMEs implement formal HRM practices with growth. Again, the findings on HRM by Harney and Dundon (2006) in six SMEs (<250 employees) in the Republic of Ireland confirm that there is a distinct mix of HRM policies and practices, uneven and contradictory, which are imbued with varying levels of formality and informality amongst and within SMEs. Indeed, as Ram et al. (2001: 846) state, informality in SMEs is 'a matter of degree and not kind, and its nature may vary as much between firms of a given size as between large and small ones'. Thus, 'all firms combine formality and informality just as they combine control and consent. The balance differs as conditions vary' (Ram et al. 2001: 859).

Table 3.7 Illustrative Overview of Empirical HRM Research in SMEs

Author(s)/ (Year)	Country	Nature of Sample/ Research Method	HRM Characteristics in SMEs
Harney and Dundon (2006)	Republic of Ireland	6 SMEs (< 250 employees) Cross sectional, Cass Study	*Informal* and emergent, heterogeneity and complexity
Bacon and Hoque (2005)	UK	338 private sector workplaces (< 250 employees) Cross sectional, Secondary data	*Informality* is widespread and a diverse range of 'enterprise characteristics' explains variation in employer strategies within the SME sector
Kotey and Slade (2005)	Australia	371 small growing firms (<100 employees) Cross sectional, Survey	HRM remains *informal* in the majority of firms.
Storey (2004)	Six OECD countries	SMEs (<500 employees) Cross sectional, Secondary data	The most effective learning for SMEs is *not through formal training* but through experience.
Cassell et al. (2002)	UK	122 senior managers (<250 employees) Cross sectional, Survey and Interview	The approach that SMEs take to HRM is fairly piecemeal and reactive, rather than proactive, holistic or systemic.
Marlow (2002)	UK	44 Manufacturing firms (<200 employees) Survey and Interview	*Informality* and flexibility are the major characteristics of employee relations in SMEs.
Kok and Uhlaner (2001)	Dutch	16 firms (<50 employees) Cross sectional, Interview	Heterogeneous and *informal*
Marlow (2000)	UK	64 firms (<210 employees) Cross sectional, Interview	It suggests that HRM activities are far more *informal* and 'hands on' than has previously been suggested by design school advocates.
Hill and Stewart (2000)	UK	SMEs (<250 employees) Case study (Manufacturing and Service)	The nature of HRD in SMEs is reactive, *informal*, and short-term in outlook.
Carrol et al. (1999)	UK	40 Service firms (7-207 employees) Case study	Found *little in the way of the formalized and systematic procedures* that are prescribed in the textbooks.
Dundon et al. (1999)	UK	A Service firm(=65 employees) Case study	The nature of labour management relations is dynamic, contradictory, and contingent.
Bacon et al. (1996)	UK	229 SMEs (<200 employees) Cross sectional, Survey and Case study	*Informality*
Duberley and Walley (1995)	UK	16 Manufacturing firms (<500 employees) Case study	The dominant approach towards HRM seemed to be reactive, opportunistic pragmatism, and *non-standard*.

Drawn from the key findings of previous studies, overall, informality, which is defined as 'a process of workforce engagement, collective and/or individual, based mainly on unwritten customs and the tacit understandings that arise out of the interaction of the parties at work' (Ram et al. 2001: 846), is the core concept upon which HRM in SMEs is based.

3.3.2 HRM – A Key Role in SMEs' Development

Some of the literature suggests that SMEs are recognizing the potential of HRM to add value to the firm (Abbot 1993, Bacon et al. 1996, Hoque 1999). A number of studies have addressed the significance of a well-motivated, highly skilled workforce as being key to the success of smaller firms (Heneman et al. 2000, Hornsby and Kuratko 2003, Storey 2004, Gray and Mabey 2005). For instance, Marlow (2000) argues that the efficient use of labour in small firms is critical in order to achieve the firm's durability and growth. In a study of 262 US small ventures (<150 employees), Hornsby and Kuratko (2003) note the availability of quality workers ranks as the issue of greatest concern. A survey of 641 small firms acknowledges labour shortages as the number one concern (National Federation of Independent Business 1998). McEvoy (1984) reports the lack of emphasis on HRM in SMEs is one of the main reasons for business failure. In an in-depth qualitative assessment of three descriptive datasets from the US, which include 156 young entrepreneurs, 173 CEOs/founders of fast-growth small ventures, and 129 research articles, Heneman et al. (2000) report that HRM issues are of significant professional and personal concern and new information about them is actively sought. Again, by comparing large (>500 employees) and small businesses (<100 employees) among seven European countries, Gray and Mabey (2005) found that finding and retaining skilled staff is a major and growing problem for SMEs across Europe.

Moreover, research on SMEs demonstrates that not only an HPWS is utilized at some small businesses (Bacon et al. 1996, Baron and Kreps 1999), but also the linkage between HRM and organisational outcomes does exist in SMEs (see Table 3.8), although SMEs are criticized for their failure to use an HPWS (Storey 2004, Cassell et al. 2002, Kok and Uhlaner 2001, Chandler and McEvoy 2000). By using structural equation modelling, for instance, Sels et al. (2006) found that the positive relation between an intensive HRM and profitability in small Belgian firms matches prior empirical work on this topic in larger companies. The analysis of 371 small firms in Australia also shows that the implementation of formal HRM structures and procedures necessary to support growth, differs between successful and unsuccessful SMEs

(Kotey and Slade 2005). Again, the survey findings on 151 small Slovenian firms indicate that a link between HRM and competitive advantage indeed exists in a transitional economy (Pra et al. 1997).

Table 3.8 Empirical Research of HRM and Organisational Outcomes in SMEs

Author(s) (Year)	Nature of Sample/ Country	Major Findings	Key HRM Practices
Sels et al. (2006)	416 small businesses (<100 employees) Belgium	HRM practices do offer surplus value for smaller firms and the positive relation between HRM and performance is in line with other studies in larger companies.	Six HR domains: selection, training, career development, appraisal, compensation, and employee participation
Kotey and Slade (2005)	371 small growing firms (<100 employees) Australia	A significant percentage of SMEs implement formal HRM practices with growth.	Recruitment and selection, training, performance appraisal, development of HR policies, and maintenance of HR records
Den Hartog and Verburg (2004)	175 firms (109 out of 175 firms < 500 employees) Netherlands	A significant impact of HR system on several performance outcome	Strict selection, employee development and internal promotion, pay-for performance, profit sharing, company philosophy, and information sharing
Hayton (2003)	99 SMEs (<500 employees) US	Employee participation and incentive pay are important success factors for SMEs seeking to promote innovation and entrepreneurship.	25 HR practices
Kaman et al. (2001)	283 informants from service industry (< 100 employees) US	Demonstrate that high commitment HR practices have the most positive impact on firm performance	Traditional, formalized HRM practices vs. high commitment practices
Rowden and Ahmad (2000)	5 firms (< 200 employees) Malaysia	A strong linkage between workplace learning and job satisfaction	Training
Guest and Neil (1999)	1000 respondents from the firm (>25 employees) UK	Clear evidence that employees benefit from the use in their workplace of a combination of HRM practices	14 HR practices
Sanz-Valle, R. et al. (1999)	200 firms (>25 employees); Spain	Provide some evidence to support a contingency approach to relationships between strategy and HRM	Competencies acquisition, development, compensation, and appraisal
Pra et al. (1997)	151 small firms (1-50) Slovenia	Indicate that a link indeed exists in that HR efforts in SMEs to a certain degree contribute to the CA of companies in a transitional economy.	Employment and benefits
Welbourne and Andrews (1996)	136 non-financial firms (50% <110 employees) US	The survival analysis indicates that firms using organisation-based compensation programs and valuing their employees are more likely to survive.	Compensation

In spite of the significant role of HRM in SMEs, few studies have appeared. For example, a review of three top academic journals in the US (Journal of Applied Psychology; Academy of Management Review; Personnel Psychology) found just 7 out of 207 articles focused on small businesses or used them in their samples (Williamson 2001). Moreover, most studies on HRM in SMEs are mainly presented as 'thought pieces' and descriptive case studies (Heneman et al. 2000). For instance, a review found only 17 (13 per cent) of 129 articles used analytical statistics to test specific hypotheses (Heneman et al. 2000). Further, most literature on SMEs includes historical and contemporary work, which ranges from that on Marshallian industrial districts (Hirst and Zeitlin 1989), capitalist desegregation (Lash and Urry 1988), flexible specialisation (Sabel 1982, Piore and Sabel 1984, Rowley 1994 1996), networked organisations (Goffee and Scase 1995) to family businesses (Ram 1991 2001), ethnicity (Bhopal and Rowley 2005) and entrepreneurship (Tambunan 2007, Matlay and Westhead 2007). This work uses a variety of perspectives, from economics and political economy to geography and sociology. It defines the role of small firms in the modern economy. While such work has implications for the management of people in SMEs, HRM is not the focus.

The literature does show, however, that SMEs can contribute to the study of HRM (Bacon et al. 1996, Heneman et al. 2000). First, it provides different points of view on the development of HRM. Second, it gives researchers a better inside understanding of the organisation because an SME is much simpler in terms of its organisational structure than is a large firm. As Bacon et al. (1996: 98) point out, 'the nature of the change programme appears to be much more informal and organic. Therefore, they (SMEs) carry greater meaning and indicate a more authentic approach than do the relatively bureaucratic formal change programmes of large organisations'.

In summary, evidence shows that HRM is crucial to SMEs' future development. In the meantime, the study of SMEs can contribute to the development of HRM. Thus, a study of HRM in SMEs is important, as it will fulfil the deficiency in the study of both HRM and SMEs.

3.3.3 Theorizing – An Integrated Approach

3.3.3.1 The resource-based view theory

Since the 1990s, HRM literature has been increasingly influenced by a branch of strategic management known as the resource-based view of the firm (RBV) (Barney 1991, Wright et al. 2001, Boxall and Purcell 2003). This evolution emerged mainly because HRM researchers recognized that the RBV provides a compelling explanation for why HRM practices lead to competitive advantage (Wright et al. 2001). It also adds legitimacy to HRM's assertion that people are strategically important to a firm's success as the emphasis is shifted away from external factors (such as industry position), and instead moved towards internal firm resources as sources of competitive advantage (Hoskisson et al. 1999, Wright et al. 2001). Therefore, RBV models, which are adopted from the RBV of the firm, have become the theory most often used with respect to the study of the link between HRM and organisational outcome, both in the development of theory and the rationale for empirical research (Lado et al. 2006, Wang and Barney 2006, Colbert 2004, Boxall and Purcell 2000, 2003, de Saa-Perez and Garcia-Falcon 2002, Marchington and Wilkinson 2002, Barney et al. 2001, Priem and Butler 2001, Leonard 1998, Barney and Wright 1998, Huselid et al. 1997, Boxall 1992, 1996, 1998, Mueller 1996, Wright et al. 1994, Wright and McMahan 1992).

<u>The RBV model</u>

The genesis of the RBV model can be traced back to Selznick (1957), who suggested that work organisations each process a distinctive competence that enables them to outperform their competitors, and to Penrose (1959) who conceptualized the firm as a collection of productive resources. Contrasting with the neo-classical price theory, Penrose (1959) differentiated between non-human resources and human resources, and asserted that the quality of a firm's HRs should emphasize the knowledge and experience of the management team, and their subjective interpretation of the firm's environment. In addition, she underlined that organisations are heterogeneous within an industry; this has become a fundamental premise in the theory of business strategy (Boxall and Purcell 2003). Drawn from the work of Penrose (1959), the RBV argues that competition does not eliminate all differences among firms in the same line of business (Nelson 1991). On the contrary, the imperfection of factor markets means that some factors can be traded in markets, whereas there are various productive capabilities that can be developed only internally (Dierickx and Cool 1989, Boxall 1996). Thus, expanded and customized factors of production create a firm's distinctive characteristics, which are difficult for other firms to replicate (Wernerfelt 1984, Rumult 1984, Boxall and Purcell 2000).

Building on the assumptions that strategic resources may be heterogeneous and immobile, Barney (1991), one of the most influential theorists in the RBV school, distinguishes between 'competitive advantage' and 'sustained competitive advantage' ('SCA'), and develops the RBV of the firm by specifying the characteristics necessary for SCA. Barney (1991) defines SCA as 'a value creating strategy that is not simultaneously implemented by any current or potential competitors and the benefits of this strategy cannot be duplicated by other firms' (p.103). Therefore, Barney (1991) points out, the potential of firm resources to generate SCA requires four specific attributes, namely, value, rarity, imperfect imitability, and a lack of substitutes. Moreover, Barney (1991) claims that the key barriers to imitation are unique historical conditions, casual ambiguity, and social complexity. These barriers stem from not only the nature of firms, which are intrinsically historical and social entities, but also from their ability to acquire and exploit some resources that depends on their place in time and space (Barney 1991).

Hence, although traditional sources of competitive advantage, such as natural resources, technology, economies of scale, and so forth, create value, the RBV argument is that these resources are increasingly easy to imitate, especially in comparison with a complex social structure, such as an employment system (Becker and Gerhart 1996). If that is so, HRs may be an especially important source of a SCA (Lado and Wilson 1994, Wright and McMahan 1992).

In recognition of the potential for the HRs of organisations to provide a competitive advantage, many HR scholars have applied the RBV to understanding the role of HR in organisations so as to explore its influence on the development of organisational capabilities and on the firm's performance (Huselid 1995, Koch and McGrath 1996, Boxall and Steeneveld 1999, Wright et al. 1995, Lepak and Snell 1999, Lepak et al. 2001, Richard and Johnson 2001, Youndt and Snell 2001, de Saa-Perez and Garcia-Falcon 2002). Thus, the RBV provides an important perspective on the debate about HRM and organisational success (Wright et al. 1994 1998 2001, Lado and Wilson 1994, Kamoche 1996, Mueller 1996, Boxall 1996, Guest 1997, Boxall and Purcell 2000 2003). It also provides a framework from which HRM researchers and practitioners can better understand the challenges of strategy, and thus be better able to play a positive role on how to improve performance and SCA (Wright et al. 2001).

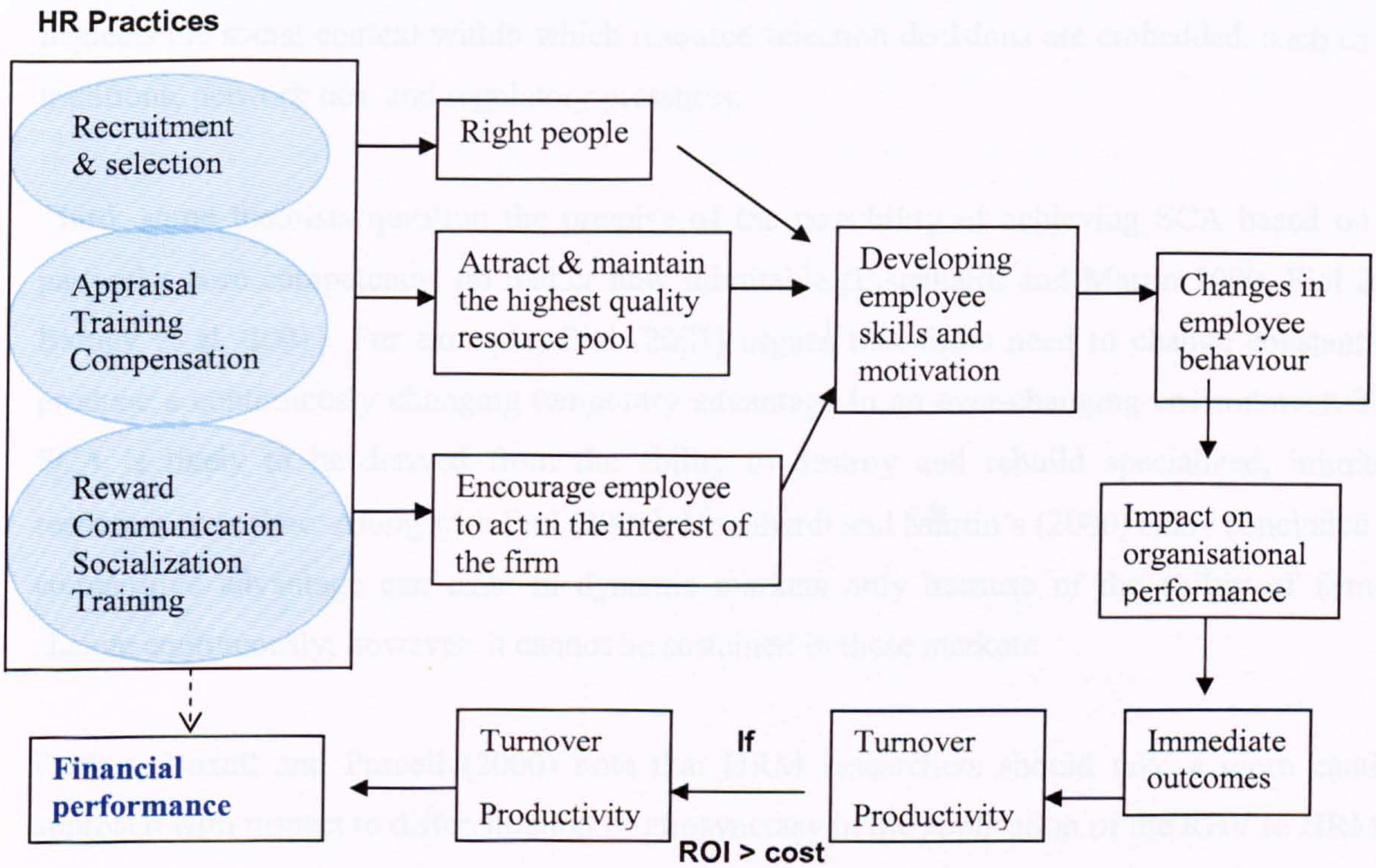
The link between HRs, HRM, and organisational outcomes

In summation, the RBV of the firm emphasizes the internal analysis of a firm's characteristics with regard to competitive advantage. The RBV emphasizes that a firm is seen not only through its activities in the product market, but as a unique bundle of resources that are complex, intangible and dynamic (de Saa-Perez and Garcia-Falcon 2002). In addition, the RBV underlines the point that competitive success does not come from making choices in the present; the success stems from building up distinctive capabilities over significant periods of time (Dierickx and Cool 1989, Amit and Schoemaker 1993, Boxall 1996 1998, Boxall and Purcell 2000 2003). Therefore, based on this point of view, the RBV model proposes that HRs may be a source of competitive advantage because they are valuable, rare, inimitable, and non-substitutable (Barney 1991, Wright et al. 1994 1998). Moreover, the model argues that a properly developed HRM system can be an especially important source of competitive advantage (Lado and Wilson 1994, Wright et al. 1994, Boxall 1996, 1998, de Saa-Perez and Garcia-Falcon 2002). This is because an appropriate HRM system can not only create and maintain the strategic human capital pool, but can also contribute to SCA through facilitating the development and utilization of organisational capabilities (Lado and Wilson 1994). Those capabilities, which are firm specific and embedded in a firm's history and culture, produce complex social relationships and generate tacit organisational knowledge that are difficult for competitors to replicate (Wright and McMahan 1992). Further, the model implies the need to build strategic management processes, since the quality of the management process and of the firm's workplace culture are seen as major factors that explain enduring differences in business performance (Barney 1991, Hunt 1995, Baden-Fuller 1995, Boxall 1996 1998, Boxall and Purcell 2003).

Therefore, as illustrated in Figure 3.1, there is a common underlying logic employed within the RBV model: HRM activities (HRM practices and policies) lead to the development of a skilled and committed workforce and one that engages in functional behaviour for the firm, hence forming a source of competitive advantage. This results in a higher operating performance (for example, high employee productivity and low turnover), which translates into increased financial performance (for example, profitability), and consequently results in higher stock prices (or market value) (Becker and Huselid 1998, Bratton and Gold 1999).

Thus, RBV theory supports the study of HRM in SMEs by illustrating the link between HRM and organisational outcomes in two ways. On the one hand, compared with the 'fit' model, the theory provides an alternative approach to the link between HRM and performance. The model implies that employees' behaviour within firms has important implications for organisational performance (Wright et al. 1994). The model also supports the research that focuses very directly on estimating the causal impact of HRM decision making on objective measures of business performance (Arthur 1994, Huselid 1995, MacDuffie 1995, Delaney and Huselid 1996, Delery and Doty 1996, Youndt et al. 1996, Huselid et al. 1997, de Saa-Perez and Garcia-Falcon 2002). On the other hand, the model appears to suggest that it is necessary to use different HRM policies and practices in the HRM system as a more appropriate unit of analysis for the study of the relationship of HRM with organisational outcomes, since many more aspects that may influence employee behaviour are included (Lengnick-Hall and Lengnick-Hall 1988, Wright and Snell 1991, MacDuffie 1995, Becker and Gerhart 1996, de Saa-Perez and Garcia-Falcon 2002).

Figure 3.1 Links between HRM, Competitive Advantage, and Organisational Outcome



Source: Adapted from Becker and Huselid (1998)

<u>The limitations of the RBV in the study of HRM</u>

There are several problems with the RBV model. First, there is a problem with the term itself. As Nanda (1996) points out, the definitions of 'resource' are 'sometimes tautological, as it is defined as firm strengths, and firm strengths are then defined as strategy resources; capability is defined in terms of competence, and competence is then defined as capability' (p. 100). In addition, Bratton and Gold (1999) argue that 'resource-based' appears to mean different things to different authors. For example, it has been described as 'distinctive competence' (Selznick 1957), 'core competencies' (Prahalad and Hamel 1990), 'dynamic capabilities' (Teece and Gray 1994), 'human resource competencies' and the 'firm's core competencies' (Kamoche 1996).

Second, some theorists have questioned the prescriptive validity of the RBV model. For instance, Bratton and Gold (1999) point out that the RBV model appears to overstate the internal features of the firm in respect of gaining competitive advantage. Similarly, Nanda (1996) argues that it seems to be ascribing preeminence to the inside-out perspective of strategy. Additionally, regarding the fundamental premises in the RBV model, Boxall and Purcell (2003) note that the RBV is imbalanced, placing undue emphasis on the internal side of the old SWOT (strengths, weaknesses, opportunities, threats) acronym. Again, Oliver (1997) criticizes the RBV as it often neglects the social context within which resource selection decisions are embedded, such as firm traditions, network ties, and regulatory pressures.

Third, some theorists question the premise of the possibility of achieving SCA based on any particular core competency, no matter how inimitable (Eisenhardt and Martin 2000, Fiol 2001, Barney et al. 2001). For example, Fiol (2001) argues that firms need to change constantly to produce a continuously changing temporary advantage in an ever-changing environment. Thus, SCA is likely to be derived from the ability to destroy and rebuild specialized, inimitable resources over time. Along with Fiol (2001), Eisenhardt and Martin's (2000) study concluded that competitive advantage can exist in dynamic markets only because of the ability of firms to change continuously; however, it cannot be sustained in these markets.

Further, Boxall and Purcell (2000) note that HRM researchers should take a more cautious approach with respect to differentiation or idiosyncrasy in the application of the RBV to HRM, as much of the RBV literature overemphasizes the concept of competitive advantage. This tendency may make it easy for HRM researchers to exaggerate the differences between firms in the same sector while neglecting the fact that all firms in a sector need some similar resources so that they can identify the link between their business and customer expectations. Those similarities in one sector that have been discussed as 'table stakes' (Hamel and Prahalad 1994, Boxall 1998) or 'enabling capabilities' (Leonard 1992, 1998), include the minimum HRM policies and practices required by each firm to play the competitive game.

Overall, the centre of the criticism of the RBV theory in HRM is that it tends to ignore the significance of contextual factors, such as the social and institutional settings, which are particularly important from an HR point of view (Paauwe 1996, Oliver 1997, Paauwe and Boselie 2003). Hence, an additional theory is suggested by a number of scholars so as to shed light on the differences in culture and institutional settings in the development of HRM theory (Wright and McMahan 1992, Rao 1994, Oliver 1997, Boselie et al. 2001, Paauwe and Boselie 2003, Harney and Dundon 2006).

3.3.3.2 The new institutionalism

Table 3.9 Research Findings of Contextual Factors on HRM in SMEs.

Author(s) (Year/Location)	Nature of Sample/ Country	Context Factors on HRM Practices
Edwards and Ram (2006/UK)	123 small firms (<50 employees)	• The survival of small firms relies on the dynamic use of resources and the context of changing economic and regulatory conditions.
Bacon and Hoque (2005/UK)	338 workplaces (<250 employees)	• Reveals that differences in workforce skill-mix, unionization and the customer base are important influences.
Chandler and McEvoy (2000/US)	66 SMEs (size median=31)	• In a small manufacturing setting, production strategy is a key factor in the determination of which HR practices should be adopted.
Hill and Stewart (2000/UK)	SMEs (<250 employees)	• Exemplify that the small org. is much more likely to evolve and change based on the external environment than its larger counterpart.
Ram (2000/UK)	3 small firms (<15 employees)	• Sectoral characteristics are key considerations in training practice.
Siu (2000/HK)	131 SMEs (<500 employees)	• Chinese SMEs are highly sensitive to changing tendencies and environments, and this sensitivity is deeply reflected in their day-to-day survival matters. • Socio-cultural influences should be considered when attempting to understand management practices of small firms in Eastern countries with developing and transitional economies.
Kinnie et al. (1999/UK)	3 firms (130-450 employees)	• Changing environment within which SMEs are operating may be contributing to significant developments in the way employee relations are managed. • Employment relation is shaped by specific customer requirements exercised through the supply chain rather than being driven by broad market forces.
Wong et al. (1997/UK)	138 firms (25-500 employees)	• Factors that shape human resource development in SMEs are HRs supply, industry sector, product-market structure, location, competition in the product market, ownership, and org. character of the firm.
Duberley and Walley (1995/UK)	SMEs (<500 employees)	• A key factor influencing the adoption of HRM practices appeared to be perceptions held by senior management about how best to deal with the opportunities and threats posed by the environment.
Stanworth and Curran (1981/UK)	8 firms (<200 employees)	• The small firm as a social grouping cannot be analysed as if it were isolated from trends in the wider society

In SME studies, empirical evidence has demonstrated that institutional influences have strong impacts on HRM practices (see Table 3.9). For instance, the evidence drawn from six SMEs operating in the Republic of Ireland shows that a complex interplay of external structural factors and internal dynamics shaped HRM in each of the companies (Harney and Dundon 2006). Likewise, MacMahon (1996) argues that one of greatest mistakes of much early research was failing to link employee relations processes in small firms with external factors (i.e. tax, social insurance structures, product markets and inter-organisational relationships), or failing to place small firms in a longer-term economic context. Again, a number of researchers point out that one of key characteristics of SMEs is that they are highly sensitive to changing tendencies and external environments (Storey 1994, Storey and Westhead 1996, Siu 2000, Hill and Stewart 2000). Therefore, the literature concludes by suggesting that an approach that takes into account a whole set of wider influences, including social, cultural and institutional factors, is particularly crucial in the study of HRM in SMEs.

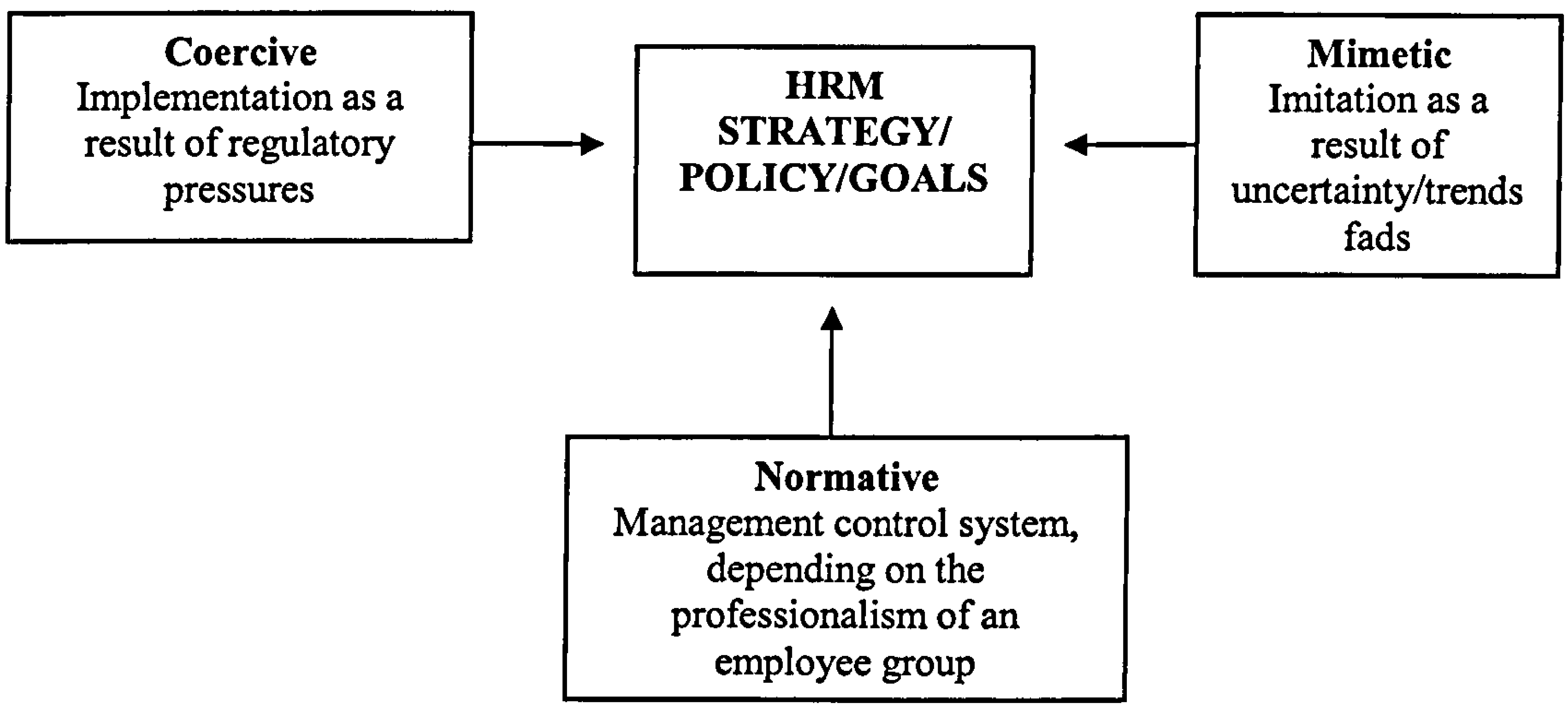
The new institutionalism has been instrumental in calling attention to cultural, political and normative pressures present in the environment (Powell and DiMaggio 1983), and it has proved useful in the analysis of organisations that are particularly vulnerable to these pressures (Paauwe and Boselie 2005 2003, Oliver 1997). As Orru et al. (1991: 361) state, 'the new institutionalism is a theoretical perspective that focuses on organisational conformity with social rules and rituals rather than with the technically efficient processing of inputs and outputs'. Thus, institutional theory is a perspective concerned more with legitimacy than with efficiency (Orru et al. 1991). It suggests that the motives of human behaviour extend beyond economic optimisation to social justification and social obligation (Zukin and DiMaggio 1990). It emphasizes the relationship between organisations and the institutional environment. It also assumes that organisations conform to contextual expectations so as to gain legitimacy and increase the probability of organisational success and survival (DiMaggio and Powell 1983, Oliver 1997).

A key concept of the new institutionalism is the notion of 'isomorphism', that is, the extent to which organisations adopt the same structures and processes as other organisations in their environment. Institutional theorists argue that institutional environments shape organisations through social pressure and result in institutional isomorphism, while technical environments shape organisations through competitive isomorphism over scarce resources (DiMaggio and Powell 1983, Orru et al. 1991). DiMaggio and Powell (1983) illustrate that 'institutional isomorphism' comprises three forces: 1) coercive isomorphism, which stems from political influence and the problem of legitimacy; 2) mimetic isomorphism resulting from a standard response to uncertainty; and 3) normative isomorphism, associated with professionalisation.

In the context of East Asia, Orru et al. (1991) demonstrate the effect of institutional influences on organisational behaviour by comparing the major enterprise groups in Japan, South Korea, and Taiwan. The research shows that rather than 'hamper organisational efficiency' (p.363), the institutional traits of different East Asian businesses are one of the determinants of their economic success and organisational fitness, as institutional principles 'provide a basis for market order and for competitive relations' (p. 363). In his study of the development of societies, firms and markets in East Asia, Whitley (1992) also addresses the importance of national institutions in the development and continued effectiveness of particular business structures and practices.

Related to HRM, some scholars have aligned institutionalism to HRM issues. In order to understand the determinants of HRM practices, for example, Wight and McMahan (1992) discuss institutional influences on HRM practices. They conclude that in reality, 'not all HRM practices are the result of rational strategic decision making processes, but rather derive from institutional and political forces in the firm' (p.311). In an empirical study on the effectiveness of HRM, Boselie et al. (2003) translate DiMaggio and Powell's (1983) three institutional mechanisms to the field of HRM (see Figure 2). In the Rhineland context of the Netherlands, they found that HRM is mainly shaped and influenced by institutional mechanisms. The empirical results also suggest that the effect of HRM is lower in a highly institutionalised context than in a less institutionalized context (Boselie et al. 2003). In a comparative analysis of China, Japan and South Korea, Rowley et al. (2004) argue that the area of HRM is probably the most context-sensitive aspect of management in the region since the history, culture and institutions of these countries have retained their power and influence even into the 21st century. By examining the role of Western MNCs in the diffusion of HRM practices among Chinese firms, again, Bjorkman (2002) found that Western MNCs are likely to serve as a source of mimetic isomorphism and may also contribute to a professionalisation of the HRM profession in the local firms.

Figure 3.2 HRM and New Institutionalism



Source: Paauwe and Boselie (2003: 1413)

In summary, the main points behind the new institutionalism of HRM in SMEs are that (a) dominant institutions are important influences on the sort of HRM practices that are adopted by organisations and are crucial to any explanation of their characteristics (Orru 1991, Pauuwe and Boselie 2003); (b) the institutionalism provides an opportunity to reveal insights with respect to the underlying processes that shape HRM and the contextual factors behind HRM decision-making; and (c) the concept of 'isomorphism' implies that the more similar firms and their practices are, the more difficult firms will find it to alter established procedures and rationalities, and thus, the less likely will firms be to adopt novel practices from foreign countries, especially where these impinge upon their domestic operations and relations (Whitley 1992).

It may be argued that the new institutionalism has a different focus from RBV. For example, while RBV tries to support HRM by addressing the differentiation between firms based on a unique resource, the new institutionalism emphasises isomorphism to form a stable market situation for efficiency. However, the evidence shows that they can co-exist in one study (Oliver 1997). Therefore, an integrated approach to HRM theory, which combines RBV with institutionalism, is applied in this current study.

3.4 Conclusions

In this chapter, we examined the meaning of HRM by looking at its historical development and by comparing traditional PM to HRM. It was suggested that a central theme of HRM is about strategic integration in decision-making. It was also implied that the concept of HRM still remains ambiguous. The development of HRM in SMEs was examined and discussed. The literature demonstrates that HRM in SMEs is complex rather than simple and straightforward. Two theories, namely, RBV and new institutionalism, are put forward as they are important in analysing HRM in SMEs. RBV theory supports the important role of HRM in SMEs' development by explicating the link between HRM and organisational outcomes, while institutional theory illustrates the influences of different 'institutional environments' on HRM practices. The discussion sheds light on the possibility of transferring HRM practices across different institutional settings. This sets the context for the following chapter, which is going to review HRM development in China in general and in SMEs in particular. The transferability of HRM into a Chinese context is discussed and constantly evaluated.

CHAPTER FOUR

A Review of Research on Human Resource Management in China

4.1 Introduction

Following on from the previous discussion, this chapter looks at HRM practices in China in particular. First of all, the chapter provides a brief overview of the development of people management in China. The literature, which is both mixed and complex, shows the evidence of change from traditional Chinese personnel management to Western HRM. It also reveals that most studies on people management in China focus on large-sized enterprises, especially JVEs and SOEs. SMEs, where the majority of the working population is employed, have not received enough attention.

While both theoretical and empirical studies conclude that HRs can be a source of SCA if the HR function were allowed to play a strategic role in organisational decision making (Wright et al. 1994, Wright and Barney 1998, Boxall and Purcell 2003), many HR scholars note that the strong effects of different cultural and institutional factors on HRM practices cannot be ignored (Brewster and Larsen 1992, Whitley 1992, Boselie et al. 2003, Rowley and Benson 2003, Boxall and Purcell 2003). Regarding research into HRM in China, a number of studies have concluded that national culture and institutions have a crucial role to play since there is a great deal of institutional and organisational inertia in the Chinese employment system (Redding and Ng 1983, Easterby-Smith et al. 1995, Goodall and Warner 1997, Verburg et al. 1999, Glover and Siu 2000, 2001, Child and Warner 2003, Hassard et al. 2004,). The issues of transferability of HRM are examined continually in the Chinese context. On the one hand, the chapter argues that the enormous pressures on firms push them in the direction of convergence with the Western concept of HRM practices. On the other hand, the chapter shows that the determinants of distinctiveness in national culture and institutional settings limit HRM take-up in China. Although the discussion is based mainly on large firms in China due to the lack of research into HRM in SMEs, it is believed that the factors affecting the transferability of HRM practices in larger firms influence SMEs because of the same national culture and institutions in which they are embedded in (Chen 1995, Chow et al. 1999, Siu 2000, 2001, Child and Warner 2003).

Finally, the chapter suggests that a distinctively Chinese HRM approach, which combines Western HRM practice with Chinese characteristics, may be the most appropriate way for SMEs to gain a competitive advantage in the coming years.

4.2 The Change in People Management in China

4.2.1 'Chinese' People Management

After the 'Liberation' in 1949, influenced by various factors, such as earlier Chinese communist experience in the liberated zones, Soviet practice, and Japanese enterprises in Occupied Manchuria (Warner 2003), China evolved its own special labour-management model, namely, the 'iron rice bowl' policy. Various researchers have defined the 'iron rice bowl' as a system of unified job allocation, guaranteed life-long employment, and cradle-to-grave welfare (Child 1994, Zhu 1995, Warner 1996, Goodall and Warner 1997, Warner and Zhu 1998, Ding and Warner 2001, Cooke 2005). More specifically, it is a PA system, which is controlled by the state and dominated by the state sector (Warner 2003, Cooke 2005). Although not typical of the whole workforce, as it applied only to the SOEs, the system set the standard for urban industrial employment at that time (Warner 2003).

With the onset of the economic reforms at the end of the 1970s, in the 1980s and 1990s, China witnessed significant progress in decentralizing the managerial autonomy of SOEs in an effort to move towards the establishment of a modern enterprise system to meet the requirements of a market economy (Ding and Warner 2001). Although the Chinese economy is still dominated by SOEs, a great change in the economic structure has taken place. The number of COEs, PEs, and FIEs, which comprise the majority of SMEs, has increased rapidly and since 1992, for the first time, the output from non-state sectors accounted for more than half (52%) of the Gross Net Profit (GNP) (Fan 1998). Together, these enterprises bring various market forces to the economy. These forces, such as the introduction of FDI and the rapid expansion of non-state sectors, accelerate the pace of change in people management in China (Ding and Warner 2001, Cooke 2005).

In order to keep in line with the new campaign, the reform of China's labour system has gradually replaced a centrally planned system with a market-driven system (see Table 4.1). For example, a lifelong employment system has been replaced by a labour contract system. The enterprises have the right to recruit their labour force through an open labour market and select employees based on skills and objective standards. An egalitarian, standard wage system has been changed to a performance-related, structural system. The cradle-to-grave welfare system has also been replaced by an insurance system. Overall, the literature suggests that people management in China is transforming into a market-oriented system (Warner 1996, Goodall and Warner 1997, Warner and Zhu 1998, Ding and Warner 2001, Cooke 2005).

Table 4.1 Changes in People Management in China

Key Aspects		**People Management in China**	
		'Traditional' PA (pre-reform)	'Newer' PM (post-reform)
Ownership form		State	Diffused
Employment		Lifelong employment system	Labour contract system
Resourcing		Unified job allocation system (i.e. administrative allocation and 'occupational inheritance')	Labour market (i.e. open job recruitment and selection according to objective standards)
Development		Enterprise-based training	External courses
Compensation	Pay	Standard wage (i.e. eight-point scale)	Structural wage system (incl. basic wages, functional wages, and floating wages)
	Reward	Flat, moral exhortation, group oriented	Performance-related, finance driven, individual and group combined
	Benefit	Welfare system	An insurance system
Relations		Hierarchy in organisational structure; centralized in decision-making; central trade union role	Hierarchy, centralized, weak role of trade union

Sources: Adapted from Goodall and Warner (1997), Ding and Warner (2001)

4.2.2 Empirical Findings on the Development of HRM in General (1996-2006)

Table 4.2 summarizes the major studies of HRM in China between 1996 and 2006. It indicates that while acknowledging the changes in Chinese people management towards more marketisation involved in the national economy, the evidence of traditional Chinese personnel practices moving towards Western HRM is mixed and complex (Warner 1999, Ding et al. 2001). In addition, it emphasizes that the impacts of the traditional culture and institutions on HRM take-up cannot be ignored.

Table 4.2 Key Research Findings on the Development of HRM in China (1996-2006)

Authors (Year/Location)	Nature of Sample/ Research Method	Key Findings
Goodall and Warner (1997/SE and N)	JVEs (7); SOEs (8) Cross sectional, Case studies	• Strong evidence of institutional and organisational continuity in 'iron rice-bowl' practices in both JVEs and SOEs.
Ding, Fields, and Akhtar (1997/S: Shenzhen)	FIEs (158, manufacturing) Survey	• FIEs have moved away from centrally planned job allocation, lifetime employment and equalitarian pay towards market oriented employ practices.
Warner (1999/N: Beijing)	SOEs, COEs, PEs, JVEs (12, high-tech) Case studies	• Confirms there is a degree of institutional continuity with past work-unit.
Ding and Warner (1999/SE and W)	SOEs, JVEs (24) Cross sectional, Interviews	• Concludes that there has been a qualified degree of change and innovation but only in specific contexts.
Verburg et al. (1999/SE: Zhejiang)	JVEs, SOEs (97, manufacturing) Secondary data	• Chinese PM will remain more rules and discipline oriented over the coming years.
Benson et al (2000/SE: Shanghai)	SOEs, JVEs (6, manufacturing) Case studies	• Employee relations can be characterized as midway between the old communist approach and Western/Japanese HRM.
Fu and Chow (2000/SE)	TVEs (10) Cross sectional, Survey and Interviews	• HR practices in TVEs are still relatively primitive.
Ding, Lan and Warner (2001/S: Guangdong)	TVEs (6, manufacturing) Case studies	• The change of people management may represent further 'convergence' with Western economic and management practices, albeit with 'Chinese characteristics' to a lesser degree than previously. • HRM practices in most TVEs are beginning to look less and less like the stereotypical Chinese work-unites associated with the old Soviet-inspired model.
Ding and Akhtar (2001/SE and S)	JVEs, SOEs (326) Cross-sectional, Survey	• An increasing number of Chinese firms, located in developed cities, to move towards adoption of HRM practices that focus on human capital development.
Ding, Goodall and Warner (2002/S, SE, N, and W)	SOEs, JVEs (62) Cross sectional, Case studies	• The pace and depth of change in HR are inhibited by political fears of social instability and by institutional and organisational inertia.
Zhu and Dowling (2002/N, SE)	SOEs, COEs, PEs, FIEs (62) Cross sectional, Survey	• Only some resemblance of staffing practices in China to those conducted in the Western market economies, although still has its own distinct features.
Ng and Siu (2004/SE: Shanghai)	SOEs, PEs, COEs, FIEs (manufacturing) Survey	• More firms will depart from traditional personnel practices and move towards convergence with HRM practices aimed at developing human capital.
Warner and Zhu (2004/N, W, and SE)	12 firms Cross sectional, Case studies	• Current HR practice possesses both diverse and transitional features.
Zhu et al. (2005/N and SE)	SOEs, PEs, COEs, FIEs Cross sectional, Survey	• It is premature to pronounce a strategic role for the HR function, and implementation of 'Western' HRM practices is becoming more prevalent in China.

Notes: The abbreviations of the locations of the studies are: N-north; SE-Southeast; S-South; W-West; NW-Northwest.

For example, the study of 24 industrial enterprises by Ding and Warner (1999) shows that the effects of labour reform on HRM practices are not straightforward. In a comparative study among 62 SOEs and JVEs, Ding and Warner (1999) found that 'organisational inertia'- the factors that have served as barriers to organisational change as well as external constraints on firms' structure and behaviour - has obstructed changes to the mind-set of Chinese managers and employees. The survey results on staffing practices (Zhu and Dowling 2002) reveal that there is only some resemblance between those conducted in China and those conducted in Western market economies. Ding et al.'s (1997) findings demonstrate that FIEs have conclusively moved away from the equalitarian pay reward system, whereas Goodall and Warner (1997) argue that the 'iron rice-bowl' is still in evidence and may be found in FIEs as well as in many SOEs. Therefore, as Warner (2003: 21) points out, 'whatever concept evolved in China, whether related to personnel or HRM, it had perforce to be endowed with 'Chinese characteristics'.

4.2.3 Empirical Findings on HRM in SMEs

As the importance of SMEs has increased, it has been accompanied by an increase in the amount of recent research attention paid to SMEs in China. However, this has focused mainly on entrepreneurship (Lau and Busenitz 2001, Chow et al. 2001), small business development (Chow and Fung 2002, Rong 2004), and government support (Danenburge 1989). Despite the fact that it is not HRM, but finance (Yeung 2002), marketing (Siu 2005) and ownership (Sun 2000) issues that are the central themes of the discussion, these studies underline the importance of culture and institutions in managerial practices in China.

While little attention has been paid to the study of HRM in SMEs in China (see Table 4.3 for an overview), a few studies have been conducted by some researchers. For example, Zheng's (1999, 2006) examination of 74 SMEs (< 500 employees) finds an underlying association among HRM practices, HRM outcomes and enterprise performance, especially for PEs and FIEs. However, she points out that this relationship was not clear in all SMEs because of distorting factors in the economy (Zheng 1999). In a study of 97 medium-sized SOEs and JVEs, likewise, Verburg et al. (1999) conclude that contextual boundaries with regard to cultural characteristics limit the applicability of some HRM in non-Western countries. Further, the findings on HRM practices in 15 small PEs in Northern China by Wang and Qiao (2007) demonstrate that guanxi with key stakeholders is a key determinant factor of the main direction and status of the small private firms' HR systems. These studies demonstrate that cultural and institutional influences also influence HR practices in SMEs. In addition, as some researchers argue (Chen 1995, Child and Warner 2003), these influences may be even greater, as SMEs, to some extent, more clearly exhibit the application of Chinese cultural values to managerial behaviour than do large firms.

Table 4.3 Summary of Major Empirical HRM Studies in China (1997-2008)

Authors	Year	Methods/Sector	Ownerships	SME Focus
Goodall and Warner	1997	Case study/ Manufacturing	JVEs (7) SOEs(8)	No
Ding, Fields and Akhtar	1997	Survey	FIEs (158)	No
Warner	1999	Case study/ Manufacturing	SOEs, COEs, PEs, JVEs (12)	Part (medium-large)
Ding and Warner	1999	Interview/ Cross sectional	JVEs, SOEs (24)	No
Verburg et al.	1999	Survey and Interview/ Manufacturing	JVEs and SOEs (97)	Part (medium-sized)
Zheng, C	1999	Interview/ Cross sectional	SOEs, FIEs, PEs, JVEs (74)	Yes
Ding, Goodall and Warner	2000	Case study/ Cross sectional	JVEs, SOEs (62)	No
Fu and Chow	2000	Survey and Interview/ Cross sectional	TVEs (10)	No
Bjorkman and Lu	2001	Interviews/ Manufacturing	JVEs (63)	Part (no definition)
Ding, Lan and Warner	2001	Case study/ Manufacturing	TVEs(6)	No
Ding and Akhtar	2001	Survey/ Cross sectional	JVEs, SOEs (326)	No
Bjorkman and Fan	2002	Interview/ Manufacturing	JVEs (62)	No
Cooke	2002	Case study/ Manufacturing	SOEs (2)	Yes
Ding, Goodall and Warner	2002	Interview/ Manufacturing	SOEs, JVEs (62)	No
Mok, Wong and Lee	2002	Interview and Survey/ Cross sectional	SOEs	No
Price and Fang	2002	Survey/ Cross sectional	SOEs	No
Zhu and Dowling	2002	Survey/ Cross sectional	SOEs, COEs, PEs, FIEs (62)	No
Deng, Menguc and Benson	2003	Survey/ Manufacturing	SOEs (97)	Yes (<500)
Ding. Ge and Warner	2004	Case study/ Cross sectional	TVEs (20)	Part (<500)
Hassard, Morris and Sheehan	2004	Interview& Questionnaire/ Cross sectional	SOEs, FIEs	No
Ng and Siu	2004	Survey/ Manufacturing	Various	Part (<500)
Cooke	2005	Survey/ Commercial	PEs (24)	Yes (<100)
Zhu et al.	2005	Survey/ Manufacturing	SOEs, PEs, COEs, FIEs	No
Ding, Akhtar and Ge	2006	Survey/ Cross sectional	Various	Part
Zheng et al.	2006	Interview / Cross sectional	Various (74)	Yes (20-500)
Wang and Qiao	2007	Interview/ Cross sectional	PEs (15)	Yes (<150)
Ngo, Lau and Foley	2008	Survey/ Cross sectional	Various (600)	No

In short, the empirical evidence reveals that people management in China is changing and moving away from the traditional mode, although the progress is slow. In addition, it implies that the applicability of HRM in a Chinese context is limited by the traditional culture and national institutions in the transfer process.

4.3 The Debate: Convergence versus Divergence

The debate concerning whether management expertise is universal or culture-bonded has been growing steadily since the 1960s. One of the major themes is the applicability and transferability of Western (mainly American) management expertise to developing countries. Researchers argue that management expertise is culture-bounded and that the American philosophy is not universally applicable (Gonzalez and McMillan 1961 in Gennaro 1969, Oberg 1963, Kinsey 1988).

Based on the previous discussion (see Chapter 3), the literature shows that HRM may provide a vehicle for enterprises to gain SCA by eliminating or reducing the problems raised in the labour market. It is also evident that HRM contributes to the development of SMEs. Nevertheless, there are definitional problems with HRM itself. This is a contested concept even in the West. For example, HRM is often taken as an American or Anglo-American idea. It is even more restrictively defined as being taken from those 'best practices' among large firms, and more restrictively again, often among blue chip, private and successful firms. Moreover, empirical evidence demonstrates that the national institutional framework, based on deep-rooted cultural and historical factors as well as on-going political and economic ones, influences the evolution of organisational, managerial and HR practices (Whitley 1992, Oliver 1997, Ding et al. 2000, Boselie et al. 2003). Thus, the extent to which enterprises in China are adopting an 'HRM approach' is a matter of debate.

4.3.1 Reasons for Convergence

More recently, the concept of convergence has been subsumed under the term globalisation by which economies become more alike due to the pressures of worldwide competition (Rowley and

Benson 2004). Seeing globalisation as comprising complicated and complex processes of economic transactions and worldwide telecommunications, some believe its impacts are profound as it is restructuring the way we live, creating a new hybridity of cultural styles and mixes (Fukuyama 1992, Giddens 1999). Thus, the increasing number of connections and interactions between nation states, and the freer and quicker interchanges and movements of capital, goods, services, people, technologies and information, have transcended national borders. Hence, the implications of globalisation for management are that there are 'universal truths', including in HRM, that can be applied everywhere, even in different countries (Rowley and Bae 2002).

The universalistic tendencies in management practices are not only enforced by the pressures from globalisation, but can also be interpreted from a historical perspective. Looking at Western industrial development (HR development), Westerners have a history that offers many parallels to what is being experienced in China's shift of workers from the countryside to the towns. Moreover, to a certain degree, the tasks and objectives in any economic regime are more or less the same, such as seeking to maximize the welfare of the people in the present and establishing an optimum rate of growth into the future (Kerr 1983). Further, Warner and Lee (2001) note that the major means of achieving common goals are the same in any nation, namely, through the market and the state plan. Therefore, these similarities suggest that certain problems faced by managers in SMEs are transnational.

Also, other forces, stemming from the deepening political and economic reforms, the influence of MNCs and JVEs with their Western HR practices, and the need to compete internationally, may impel firms to adopt institutional rules, which may then become a driving force for convergence (Ding and Warner 2001, Cooke 2005). For example, in conducting its executive training programmes, China received help from European countries, Japan, Canada, USA, Hong Kong, as well as from professional associations and international consulting firms. Many management books and magazines have been published and training manuals written. In this particular institutional milieu, management concepts have become widely known to Chinese managers, and practices have entered enterprises, though with varying degrees of success. Moreover, imbalances in the labour market have forced enterprises to adopt more sophisticated recruitment and reward strategies (Zhu and Dowling 2002, Zhao and Wu 2003). Some local firms are beginning to copy the way that MNCs and JVEs operate as their HR systems and practices are considered to be more modern and advanced (Ding and Warner 2001,Cooke 2005). Further, some Chinese entrepreneurs are aware that their business development is deficient in comparison to others (*People's Daily* Feb 2001). Younger managers, especially in urban coastal regions, are adopting new values, such as individualism (Child and Warner 2003). Therefore, the need to keep abreast of world trends in their field has cultivated a willingness to learn from abroad.

As Chinese firms are urged to imitate or transfer Western HRM practices that may lead to SCA and greater organisational outcomes, thus, the pressure from globalisation, the social forces from the institutional environment, and the internal causes from the enterprise itself, may result in convergence towards similar systems in HR practices,

4.3.2 Determinants of Distinctiveness

Given the continuing importance of nation states and heterogenisation in terms of national or local responses to global processes or imperatives, the tendency towards convergence is criticized as overstated and over-generalized (Weiss 1998, Hirst and Thompson 1999). Indeed, the power and the authority of nation-states are enhanced because they stipulate more centralized regulation over cross-border economic activities (Held et al. 1999). In addition, societal difference remains as these forces are mediated by different institutions with their own traditions and cultures (Hofstede 1991, Whitley 1992, Verburg et al. 1999, Maurice and Sorge 2000). For example, Erez (1994) shows the contextual boundaries for applying managerial tools by defining context in terms of task and cultural characteristic. Rowley (1997) questions 'convergence' in HRM in Asia via political, structural, societal, and cultural constraints (see also Rowley and Benson 2004). In other words, HRM differs as its settings are affected by the significant contextual role of the national situation.

In relation to HRM practices in China, researchers also acknowledge the difficulties and problems that arise during the transferring process. For example, Shenkar and Ronen (1987) find that promotion is not pursued too strongly as it means greater risk vis-à-vis the possible reward. Pye (1991) argues that both Confucianism and the Chinese version of Marxist-Leninism have played down individualistic assumptions, the basic premise of Western HRM. Warner (1995) argues that Western motivation theories may not apply to Asian societies, such as in China. Wong et al. (2002) state that traditional cultural values of loyalty, 'guanxi' (relationship) and 'bao' (return/repay) still play a key role in affecting Chinese employees' work-related attitudes and behaviours. Therefore, the literature shows that moves towards Western management methods may not have the desired effect because of the deep-rooted cultural and institutional influences (Lockett 1988).

Traditional culture

Contemporary writers on Chinese culture (for example, Bond 1986) agree that, notwithstanding the lure of the West and of such modern influences as consumerism, the Confucian ethic remains the bedrock of thought and behaviour. Child and Warner (2003) also argue that national culture in China is the most important variable in HRM analysis. Thus, to understand the context for HRM in China, it is necessary to understand the cultural influences of China (Whitley et al. 2000, Child and Warner 2003, Zhu and Warner 2003).

An important output of traditional Chinese culture is Confucianism, which has played a crucial role in Chinese history, such as in the pre-revolution era, the post-1980s and today. Confucius (Kongzi 551-479 BC), the Chinese philosopher and teacher, developed a pragmatic set of guiding principles for people's daily lives, amongst which was 'absolute respect for tradition, based on a carefully ranked hierarchy system founded on primary relationships not only between members of families but also between the people and their rulers' (McGreal 1995: 5). The major ideas of Confucius were the three basic guides (ruler guides subjects, father guides son and husband guides wife), the five constant virtues (benevolence, righteousness, propriety, wisdom and fidelity), and the doctrine of the mean (harmony).

Confucius believed that human heartedness/benevolence ('Ren') is the highest virtue an individual can attain and this is the ultimate goal of education (Child and Warner 2003). He also believed that the practice of 'Li' is the only path to accomplish 'Ren'. 'Li', interpreted as rituals, rites or proprieties, covers all moral codes and social institutions. Confucius not only emphasized conformity with the social order through the practice of 'Li', but also underlined that an individual is not an isolated entity. Confucius said, 'In order to establish oneself, one has to establish others. This is the way of a person of 'Ren'' (McGreal 1995: 5). Indeed, as Bond and Hwang (1986) argue, the emphasis of 'Li' in Confucianism encourages an individual to maintain the hierarchical order and harmonious interpersonal relationships in a relatively stable and permanent social fabric. Thus, it demands that an individual interacts with people across different personal networks ('guanxi') in accordance with various standards of social exchange.

According to Confucius, the right method of governing is not by creating legislation or by law enforcement but through the moral education of the people (McGreal 1995: 6). The ideal government he advocated was a government of non-action ('wuwei') through the solid groundwork of moral education. Confucius said, 'If you lead the people with political force and restrict them with law and punishment, they can just avoid law violation, but will have no sense of honor and shame. If you lead them with morality and guide them with Li, they will develop a sense of honor and shame, and will do well of their own accord' (McGreal 1995: 7). Thus, a reliance on the quality of inter-personal relationships rather than on contracts and legal processes is a common practice in business transactions among Chinese firms (Child and Warner 2003).

Chinese cultural traditions have long been underpinned by four significant Confucian values, which have a great influence on people's minds and social behaviours (Locket 1988, Bond 1991, Whitley 1992, Child 1994). These are a) 'harmony': keeping good relationships with reciprocal obligations and duties between members of the same clan; b) 'hierarchy': respect for seniority and age, which means that older persons and those of higher social rank can and should receive more respect and favours; c) 'collectivism': thinking and behaving within accepted social norms and avoiding hurting others within the same kinship or same social environment; and d) 'family': the primary unit of identity and loyalty together with the primary of vertical loyalties and duties.

While these key values have marked strong effects in social and working life in China, two major forms that express the values are identified by various authors (Child 1994, Easterby-Smith et al. 1995, Yeung and Tung 1996, Hui and Graen 1997, Verburg et al. 1999, Child and Warner 2003). One is 'mianzi' (face), which is of particular importance as a critical element in harmony (Bond and Hwang 1986). The other is 'guanxi', a term used to denote relationships or particularistic ties among individuals (Tsui et al. 1998). In Chinese society, 'you cannot clap with a single hand', as

Han Fei-tzu aptly puts it. One must, therefore, expend considerable effort to maintain and extend one's social bank account, thereby nurturing the sodality of society (Bond 1991). Essentially, therefore, 'guanxi', 'Li', and 'mianzi' reinforce the social bond that makes the Chinese system function smoothly (Child and Warner 2003), and consequently, influence HR practices and policies profoundly (for a detailed discussion see Section 4.3.3).

National institutions

Indeed, Chinese culture plays an important part in HR practices, but it is not the only factor. As Child and Warner (2003) argue, the distinction between cultural and institutional causation in the transition of HRM in China becomes blurred by the inter-relations between the two over historical time. For example, in a study of the national business system, Whitley (1992) argues that the dominant institutions, such as the state and family, were important influences on the business structure and management practices that emerged in East Asian societies. He also points out that any change of firm type and patterns of behaviour is unlikely to occur in the absence of substantial institutional changes. Likewise, Tang and Ward (2003) note that management in China is not only embedded deep in traditions, but is also influenced by a legacy of the more recent history of communist economics and the planned economy. For instance, in contrast to Anglo-American attitudes, which are that power and responsibility go hand in hand, in Chinese bureaucracy and politics, proof of importance lies precisely in protection from accountability (Tang and Ward 2003).

As one of the most fundamental institutions, again, the education and training system affecting the growth and development of HRs, has had a great influence on HR practices in China. For instance, creative thinking, concept information, information processing and decision-making abilities have not been fostered in the learning process since the traditional emphasis in the education system was to stress memorisation and the regurgitation of factual knowledge (Bond 1996). In addition, formal certification of success in highly competitive examinations was vital for access to elite posts in society. This has lead to most public institutions playing down specialized technical training, and so practical skills are not as highly developed and standardized as in some Western societies (Whitley 1992). Further, society, which has a collectivistic and hierarchical emphasis in human relationships (Cheng 1946, Lin 1939, Bond and King 1985), encourages the Chinese to pay more emphasis to group-oriented behaviour than to individualistic activities, and to stress imitation rather than debating in the training and learning process.

In summary, both traditional culture and national institutions play an important role in explaining the HRM take-up in enterprises in China. Influenced by Confucianism, both society and the education system in China have placed a great emphasis on harmony, hierarchy and discipline. These features are reflected in people management, as they embody the distinctiveness of Chinese HRs (i.e. less creative thinking; lack of problem solving skills and flexibility; avoidance of conflict and responsibility) and organisational structures (i.e. hierarchical order; personal networking rather than normative business relationships). In the meantime, it is important to be aware that social, historical, economic and organisational changes also affect traditional thinking. As Rowley and Bae (2002: 420) note, the relationship between values and HRM development is 'interactive, and even circular in causation'.

4.3.3 HRM Practices in the Chinese Context

Though empirical research identifies that cultural values in China are changing as a result of modernization and economic development (Ng and Siu 2004), a number of studies demonstrate Chinese culture and institutional factors still have a strong impact on HR practices in business enterprises (Wong et al. 2002, Wright et al. 2002, Gamble 2003). By comparing HR practices in small, medium and large firms, for example, Chow et al. (1999) found ownership and size are key factors in understanding job generation and reallocation. Ding et al. (2000) mention that the pace and the depth of HRM change are hindered by political fears of social instability and by institutional and organisational inertia. Cooke (2002) concludes that harmonious labour relations in small SOEs are being replaced by ones with conflicting interests and rising disputes.

In order to transfer HRM successfully, therefore, it is important to have a better understanding of how and why barriers occur in the transferring process. Four areas that have been recognized by many HR scholars and practitioners as the most essential aspects of HRM practices (Marlow 2000, Rowley 2003, Boselie et al. 2003), namely, employee resourcing, development, rewards, and relations, are discussed as follows.

Employee resourcing

In general, employee resourcing includes HR planning, recruitment and selection (Rowley 2003). Recruitment and selection is of paramount importance in employee resourcing since an effective recruitment and selection procedure can attract and find the 'right' individuals who can contribute to organisational success (Rowley 2003, Sue 2005). In addition, an extensive recruitment and selection process has been highlighted by many HR scholars as one of the best HRM practices (see Table 3.5 in Chapter 3). Hence, the focus of the current study in employee resourcing is on recruitment and selection.

The process of recruitment and selection has been viewed as a means by which the organisation tries to match accurately the individual to the job (Sue 2005). For instance, recruitment is referred to as 'the process of contracting applicants (both internal and external) suitably qualified for a vacant position and encouraging them to apply' (Rowley 2003: 59), while selection is defined as 'the process of measuring differences between the candidates to find the person who has the profile which best matches the person specification as indicated by the job profile or description' (Sue 2005: 117).

As Boxall and Purcell (2003) note, recruitment strategy is best known as the way in which a firm tries to source or attract the people from among whom it will ultimately make selections. However, job interviews, considered by Western managers to be a crucial step in recruiting key personnel, are less favoured in the selection process in Chinese firms (Zhu and Dowling 2002). The major reason behind the approach in Chinese enterprises is that one of the major purposes of interviews in HRM concepts, which is 'to observe a person's personality and interpersonal skill in order to detect any potential for interpersonal conflicts' (Huo and Von Glinow 1995: 5), seems not to be appreciable in the Chinese context. This unique phenomenon can be explained by Chinese culture, which is characterized by a spirit of compromise and tolerance. It also can be explicated by the Chinese education system, which encourages students to be patient, understanding and considerate at different stages of their education (Bond 1996).

In contrast to Western HR recruitment practices, another noticeable aspect in Chinese enterprises is the importance of connection ('guanxi') in selection practices (Knight et al. 1999, Hare 1999).

Traditionally, as Weber (1951: 244) remarked, 'the Confucian gentleman, striving simply for dignified bearing, distrusted others as generally as he believed others distrusted him'. Thus, a lack of trust in the wider world beyond one's immediate family is widely spread in Chinese society (Redding 1995). Moreover, the importance of connections has been reflected by the political and social systems, which have been geared to numerous types of affiliation, such as family, clan or kinship. Further, using connections in the selection process has been encouraged by the education system, as it provides a far more reliable means by which firms can predict a person's future success than has been the case in the US (see Huo and Von Glinow 1995). Nevertheless, the strong sense of close personal relationship and obligation that is nurtured at the beginning during the recruitment stage, for example, becomes one of the major impediments in the firing process in most enterprises as managers tend to be highly protective of their employees so as to maintain staff loyalty (Child 1991).

Employee development

Employee development is the method by which organisations both develop their HRs and ensure the job is being down (Rowley 2003). Employee training and performance appraisal are two major issues, which are involved in the practice. The current study tackles the area of HR training by examining patterns (i.e. training methods and purposes), the status and positions of training activities in SMEs.

Training, as one of the key HRM practices, is an inevitable requirement for developing the competence of a workforce so that employees can work with new methods and technologies in the new environment (Child 1991). However, there are several hurdles that encumber the effectiveness of employee training in Chinese enterprises. For example, a major problem is the attitude towards learning in the working environment. China, as the oldest living civilization in the world, places great emphasis on its past. Even Confucius claimed simply to be transmitting the wisdom of the ancients (Bond 1996). Thus, little value is placed on promoting a questioning attitude in society (Tang and Ward 2003), thereby making it difficult to introduce Western management skills, such as normative decision analysis, into a Chinese setting (Pollock 1996). Additionally, there is a tradition of training from childhood to rely on superiors and the group for guidance in dealing with the unexpected, which, it is argued, makes the Chinese less capable of flexibility, problem solving and taking individual responsibility compared with others, such as Americans (Bond 1991). Further, as guanxi-based behaviour is deeply embedded in the Chinese psyche, Wright et al. (2002) argue that training by itself is unlikely to create long-term behavioural change.

Employee rewards

Employee rewards refer to the way in which employees are rewarded at the workplace. A reward package is composed of a number of elements, which include pay, benefits, promotion, praise and opportunities for development and training (Rowley 2003).

Looking at employee rewards in Chinese enterprises, Hofstede (1980) states that Chinese society emphasizes a collective orientation and encourages shared responsibility and social interests, whereas the US is a highly individualistic culture that focuses on individual accomplishments and self-interest. As Wilhelm and Xia (1993:413) argue, 'Chinese do not thrive on public praise from others and would never praise themselves while in a group situation. They do not try to acquire prestige by making social change.' In addition, there is often a lingering caution in the enterprises about allowing wage differentials among the workforce to widen too far (Lu 1989, Tang and Ward 2003). Therefore, despite the fact that there has been a move towards performance-related reward systems under the economic reforms (Warner 1997), the concern remains as growing levels of conflict between workers and management have arisen (Warner and Goodall 1997, Feng 2002, Mok et al. 2002).

For instance, the interview results on 65 JVEs conclude that all Chinese managers and professionals are unwilling to give their subordinates poor ratings, as that would affect their personal relationships in the workplace negatively (Bjorkman and Lu 1999). Similarly, by comparing four Chinese enterprises with four UK large firms, Easterby-Smith et al. (1995) found that the main difference between HR practices in China and the UK appears in the 'softer' areas where relationships are important, such as rewards. Moreover, Bojorkman and Fan (2002) point out that a common problem in reward systems among the 62 JVEs they studied was a lack of employee initiative and the taking on of responsibility by employees, which is likely to be rooted both in Chinese culture and in the institutional context of Chinese business organisations.

Employee relations

Broadly speaking, the issue of employee relations is 'concerned with all aspects of the employment relationship, which includes the study of individuals, groups, their unions and associations, employers and their organisations, and the environment in which these parties interact' (Rowley 2003: 210). As employee involvement is one of the perennial interests of employee relations, both in terms of a 'cause' and 'cure', therefore, the focus of the current study with regard to employee relations is on employee involvement.

As Rowley (2003) argues, the importance of employee involvement to employee relations is that it is an attempt to create a sense of belonging and commitment via the dissemination of information about the organisation and its environment. Nevertheless, Chinese culture creates obstacles to effective communication and discourages employee involvement in the enterprise in several different ways. First, the importance of family in the society has encouraged managers and employers to harness this conception of hierarchy and obedience to buttress their own authority to a greater extent than occurs in most Western forms of paternalism (Whitley 1992).

Second, the emphasis on harmony and the importance of saving face in the workplace often constitutes a source of inhibition of effective communication. In order to maintain harmony in the firm, for example, Zhao (1994) argues that the workers are more likely to listen and to comply than to initiate change. In addition, the attitudes and ways of handling or confronting conflicts and problems in the workplace are different from the attitudes and methods used in Western firms. A study by Tang and Kirkbride (1986) shows that managers favour the less assertive 'compromising' and 'avoiding' solutions, in contrast with British officials who preferred the more assertive 'collaborating' and 'competing' styles. A similar Chinese preference for compromise can also be seen in the study by Leung (1987), which found that Chinese subjects from Hong Kong preferred mediation over adjudication as a way of resolving disputes, whereas American subjects showed no preference for one over the other.

Third, in contrast to a poor information flow in the organisation, there is an extraordinarily well-developed grapevine within all enterprises that relies heavily on the functioning of 'guanxi' or personal relationships (Child 1991). When these relationships break down, however, there is an insurmountable gap in the information chain (Child 1991).

Using these categories, the differences in HR practices between Western and Chinese enterprises based on cultural impacts are noted in Table 4.4 and the major problems that may occur in implementing HRM practices because of cultural and institutional factors are summarized in Table 4.5. They show that it is important to bear in mind the continuing significance of the role of national context in HRM settings in enterprises in China.

Table 4.4 Differences between Western and Chinese HR Practices

HR Practices	**Western Practices**	**Cultural Impacts**	**Chinese Practices**
Resourcing	- Job interview is an essential step for filling major position	• Respect for harmony • Respect for 'guanxi'	- Interviews not common yet. - Personal network important in the selection process.
Development	- Individualistic activities - Debating - Flexibility - Strong skills in problem-solving, creative thinking	• Respect for seniority, hierarchy, and high discipline • Emphasis on the past • Collectivism	- Group-oriented activities - Imitation - Inflexibility - Memorization
Rewards	- Sophisticated and objective - Individual accomplishment and self interest - Incentive pay - Performance-based (merit-based) - Peer evaluation	• Respect for harmony • Collectivism	- Simple and subjective - Share responsibility and social interest (group goals) - Egalitarian (lack of incentive) - Seniority-based - One way evaluation
Relations	- Flat organisation structure - Decentralization - Direct - Two-way communication - Competing and collaborating - Degree of participation high	• Respect for hierarchy • The importance of family • Respect for high discipline • Respect for harmony	- Top-down organisation structure - Centralization - Indirect ('hanxu') - One-way communication - Listening and complying - Compromising and avoiding - Degree of participation low

Source: Cunningham and Rowley (2007)

Table 4.5 HRM Major Problems versus Cultural and Institutional Factors

HRM Major Problems	**Institutional (I) / Cultural (C) Causes**
Resourcing • Shortage of highly-qualified managers and professionals	I: education system I: increasing competition in the labour market
• Pressures of overstaffing	I: shrinking of SOEs I: unemployment C: Benevolent government policies
• Selection bias	I: lack of a corporate governance system C: respect for connections ('guanxi'), which causes people to become indebted to each other.
Development • Danger of losing well trained staff	I: more dynamic labour market I: lack of a mechanism to retain key employees (i.e. a career development policies and practices)
• Learning attitude: Lack of critical thinking, problem-solving skills, and less flexibility (*individualism*)	I: education system C: ordering relationships by status and respecting the order of the status C: imitation rather than debating C: protecting face (i.e. avoidance of conflict and maintenance of harmony)
Rewards • Egalitarianism (lack of incentives)	I: avoidance of income polarization so as to keep social stability C: harmonious interpersonal relationships in workplace
• Seniority-based promotion (*merit-based promotion*)	I: legacy of Chinese enterprises' emphasis on seniority C: Confucian value – 'respect for elders'
Relations • Both managers or employees are unwilling to take risks on an individual basis	I: group decision making I: lessons from the Cultural Revolution C: Confucian value – 'Group-oriented over individualism' C: sense of face and shame
• Vertical job involvement is less appreciated. (*Decentralization*)	C: high power-distance culture

Source: Adapted from Tsang (1994)

4.3.4 HRM with 'Chinese Characteristics'

Against the backdrop of economic globalisation and China's WTO entry, the commentary points out that China should give a higher priority to HR, as it will soon face stiffer competition globally (*Guangming Daily* June 3 2003). Moreover, experts believe that the HR issue in China should no longer remain solely the concern of business circles since it impacts on national competitiveness (*People Daily* June 6, 2003). Cui Weijiang, a well-known Chinese economist, said that despite rapid economic growth, China remained relatively uncompetitive, largely due to its poor HR development. In his view, the combination of capital resources and a low-value labour force would not ensure sustainable economic growth. China will probably never see its national competitiveness upgraded unless it stresses investment in HR and gives legal recognition and protection to their value, as well as attracting capital investment (*People Daily* June 6, 2003). Therefore, as Rowley and Benson (2003) argue, HRM in this context has been seen as the appropriate way to improve labour productivity, harmony and economic development.

As the non-state owned sectors expand and the SOEs shrink correspondingly, the impact of WTO accession will lead to more competition and greater marketisation. The greater the impact of these changes on Chinese firms, the more Chinese traditional PM will be replaced by HRM gradually (Warner 2003). Notwithstanding that many JVEs and non-state firms in China have incorporated some new personnel practices into their own management systems (see Garnaut et al. 2001), social considerations still count and classical economics do not dominate decision-making completely (see Guthrie 1999). Also, a recent survey of practitioners' views reported by Pang (1999) demonstrates that HRM in China is still in its infancy. In addition, case studies by Warner (2003) illustrate that HRM in China is still very far from the initial concept of HRM as understood in the international academic HRM community (Poole 1997). Research findings by Zhu et al. (2005) support Warner's argument (1999, 2003) that it is still premature to pronounce that HR practices have definitely moved closer to a Western style of HRM.

Although the evidence demonstrates that it is questionable to presume HRM is effectively embedded as a Chinese practice (Cooke 2002, Child and Warner 2003, Ng and Siu 2004), this is not to say that SMEs should finish up adopting Western HRM practices. The principle is that there should be a keen sense of what can be digested and what can not, given the stage of development they have reached. As Tang and Ward (2003) argue, the reform in China need not entail the wholesale abandonment of one set of practices in favour of another. In addition, the experience of Taiwan and Hong Kong has suggested that it is possible to retain Chinese characteristics in the process of reform (see Siu 2000). Further, some traditional Chinese values, such as diligence, frugality, and a respect for learning, may well give Chinese enterprises a certain competitive advantage, for example, an advantage in preserving independence when collaborating with a more advanced partner (Tang and Ward 2003). As Wong (cited in Bond 1991: 115) posits, 'past critiques of Chinese culture have been too indiscriminate and were thus blind to the possibility of a mutually selective interaction between Chinese cultural values and new institutional arrangements that can generate effective configurations for modernization'. Therefore, the rational and system-oriented Western business method should intersect with the relational and holistic Chinese tradition to create a 'new reality' (see Whitley et al. 2000). The same principle can be applied to adopting HRM practices in SMEs. In other words, an integrated people management system, which combines Western HRM practices with 'Chinese characteristics', is the most appropriate approach for SMEs to adopt.

4.4 Conclusions

In this chapter, we looked at the development of people management in China, which, it is believed, will result in a greater focus on HRM, not least as a way to compete on a global level. We examined the transferability of Western HRM in terms of possible convergence and the pressures on tendencies. This highlighted key determinants in Chinese people management, which stem from a distinctive national context. As Rowley (1997b: 198) notes, the evidence on convergence is actually 'mixed and equivocal, with caveats often used'. Four main HRM dimensions were discussed and compared in terms of Western and Chinese characteristics and their cultural-institutional impacts and problems. The chapter concluded that to survive and sustain growth in China's dynamic environment, a system of HR practices, aligned with other factors, such as national culture and institutional influences, may be a route for SMEs. In order to investigate the HRM practices in SMEs thoroughly, a conceptual framework is presented in the next chapter.

CHAPTER FIVE
Research Questions

5.1 Introduction
This chapter provides a conceptual framework for the current study. Based on the literature review in previous chapters, it concludes that the nature of SMEs and the distinction in terms of Chinese traditional culture and national institutions are two major forces that need to be considered in the study of people management in SMEs in China.

The central themes of the nature of people management in SMEs in China are discussed from three key aspects. First, the implication for the personnel function in SMEs is considered with relation to the degree to which it has shifted towards a more strategic role. Second, the chapter looks at the extent to which current HR practices are applied in SMEs. Four major categories of HRM practices for the current research are used, derived from previous studies. Finally, the evolving cultural and institutional factors that shape HR practices in SMEs in China are explored. Consequently, three research questions emerge, which form the detailed analysis of managing HRs in SMEs in the later chapters.

5.2 A Conceptual Framework
To gain a competitive edge, HRM stresses the strategic role HR plays in improving an organisation's performance. A number of empirical studies have shown that there is a positive relationship between effective HRM practices and organisational outcomes (Huselid 1995, Delaney and Huselid 1996, Huselid et al. 1997, Guest et al. 2000). Though there is no clear list of 'best practices' (see Table 3.5 Chapter 3), it has been claimed that extensive recruitment and selection, training and development, performance-based compensation, and commitment to employee involvement are generally considered parts of an HPWS (Becker and Huselid 1998, Rowley and Bae 2002). Moreover, another critical part of the argument in the HRM literature is that rather than individual HRM practices, a 'bundle' of HRM practices may serve as a potential source of a SCA (MacDuffie 1995, Delery and Doty 1996, Youndt et al. 1996, Becker and Huselid 1998). These studies indicate that internally consistent HRM practices may not only

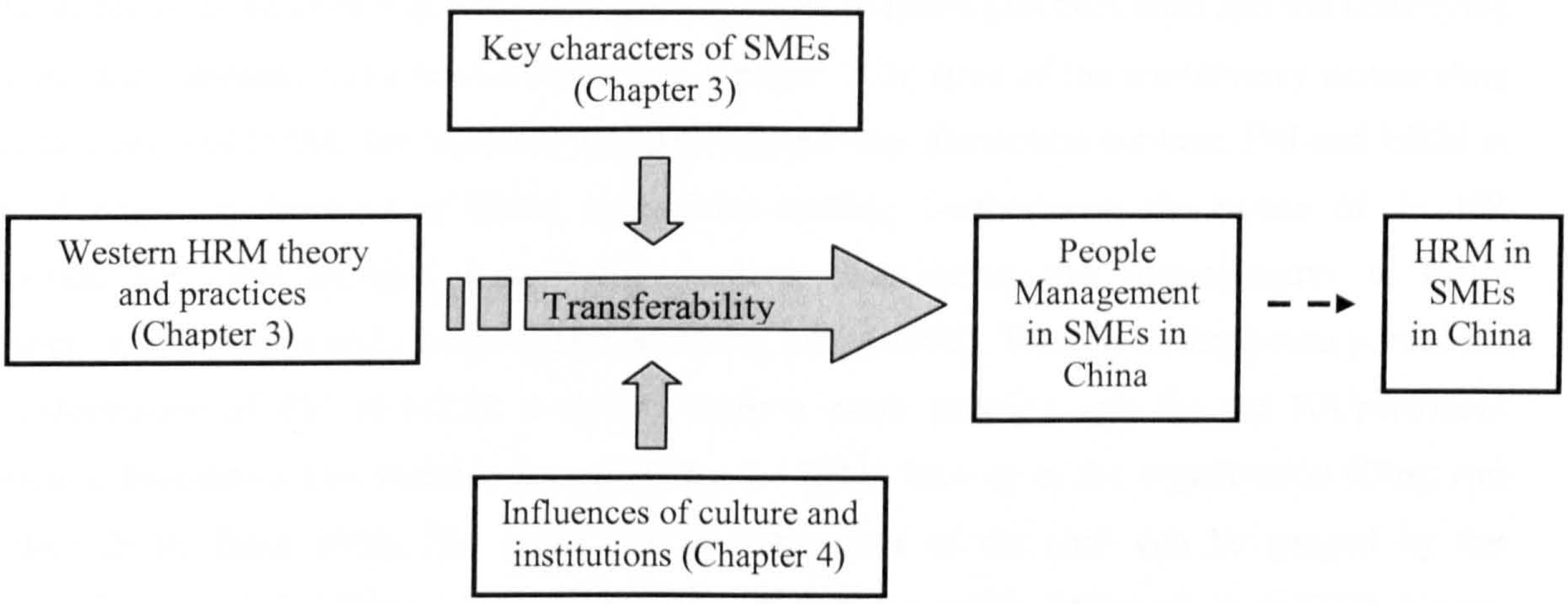
produce human capital that is valuable and rare (Becker and Huselid 1998), but also could create working environments that competitors would find difficult to imitate (Barney and Wright 1998).

While the significance of HRM in organisational development is emphasised by a number of studies, the concept of HRM has been contested. For example, it is argued that HRM is often taken as an American or Anglo-American idea (see Chapter 3 and 4). With relation to HRM in SMEs in particular, moreover, many HR scholars state that a small firm is not a 'scaled-down' version of a large firm, and the character of an SME mirrors the nature of its HRM, which differs from that of large firms (see Table 3.7 in Chapter 3). Therefore, as Heneman et al. (2000) state, HRM theory and the research being conducted may not be congruent with the actual HR issues challenging SME practitioners in the field, as size and structure serve as boundary conditions to the theory of HRM.

Further, the importance of institutional environment on the applicability of HRM practices in an organisation, especially in SMEs, has been demonstrated from both theoretical and empirical perspectives (see Chapter 3). Related to HRM in SMEs in China particularly, contextual boundaries that limit the applicability of some HRM in a non-Western country have been discussed and exemplified in Chapter 4. Empirical evidence illustrates that traditional Chinese culture and institutions affect HR practices profoundly. For instance, the legacy of an 'iron rice bowl' still has an impact upon some managers who are unwilling to dismiss efficient workers (Glover and Siu 2001). Respect for age and seniority leads to a hierarchical organisational structure, and discourages workers from participating in decision-making processes (Bjorkman and Fan 2002). 'Guanxi'-based behaviour, which is deeply embedded in the Chinese psyche, hinders any long-term behavioural change achieved through training (Wright et al. 2002). Even though the majority of the research is conducted based on larger firms in China (1000 employees plus), some researchers argue that these influences have profound effects on SMEs also due to the same national environment in which they are operating (Chen 1995, Chow et al. 1999, Siu 2000, 2001, Child and Warner 2003).

By and large, the critical overview of the field of HRM theory, SMEs, and HRM in China suggests that there are two main aspects in explaining the nature of people management in SMEs in China, and then, encouraging and constraining the transition of HRM (see Figure 5.1). One is the key characteristics of SMEs themselves. These characteristics determine the nature of people management in SMEs and affect how HR practices are implemented in these firms. The other is the national cultural and institutional environment, which may limit or support the take-up of HRM in organisations.

Figure 5.1 Conceptual Framework



Notwithstanding the increasingly crucial role for SMEs in China's economy (see Chapter 2), the literature shows that most current studies on HRM issues in China concentrate on larger SOEs, FIEs or JVEs (see Table 4.3 in Chapter 4). There is no systematic study of HRM in SMEs. This is largely due to the difficulties in accessing the data given the massive number of SMEs, remote locations, and local protectionism. As Pomfret (1991: 25) has commented, in China, there is 'no strong tradition of reporting economic statistics', which is especially significant in the research into SMEs in China. Therefore, more effort is needed to expand research to cover the complete range of HRM issues for all enterprise types, especially SMEs in China.

In order to have a better understanding of the nature of people management in SMEs, therefore, the study explores the issue from three aspects, namely, the role of the personnel function, the extent (i.e. scope, degree and coverage) of current HR practices, and the influence of cultural and institutional factors on these practices. Consequently, the three research questions are: a) what is the role of the personnel function in SMEs? b) to what extent are HRM practices applied in SMEs? and c) what are the institutional and cultural factors that affect HRM take-up in SMEs? Indeed, these questions are embedded in organisational characteristics, HRM development theory, and the debate on convergence versus divergence in management practices.

5.3 Research Questions

5.3.1 Research Question 1: What is the role of the HR/personnel function in SMEs?

The differences between PM and HRM, both in terms of HRM practices used and the underlying values and concerns, have been discussed in Chapter 3. In spite of the controversy surrounding the meanings of HRM, the literature suggests that the key distinction between PM and HRM is the strategic involvement of HRM in decision-making. Furthermore, the nature of the HR function has been changed from being reactive, prescriptive and administrative to being proactive, descriptive and executive (Boxall 1994, Legge 1995). Thus, as an important part in the transformation of PM to HRM, a shift towards a more strategic role for the HR/personnel function becomes a key variable in explaining the HRM take-up in the organisation (Ding and Akhtar 2001, Bach 2005, Zhu et al. 2005). Indications of the shift can be gauged by the terminology used (i.e. 'human resources' rather than 'personnel') (Millward et al. 2000, Hoque and Noon 2001), the position of HR/personnel function in the organisation (i.e. 'to meet business requirements' rather than 'the well-being of the workforce') (Townley 1994), the tasks and/or responsibilities in which HR/personnel specialists are involved (i.e. 'strategic dimensions' rather than 'operational matters') (Hall and Torrington 1998), and the perceptions among other groups within the organisation, including employers, line managers and employees (Deloitte and Touche 2003, Caldwell 2004, Guest and King 2004). However, some HR scholars argue that the HR/ personnel role in strategic management in SMEs is different from the one described in HRM theory and studies. For example, the HR/personnel function in SMEs was characterized as a belief in the importance of the business but a lack of any formality (i.e. no personnel or HRM manager in post); a problem in respect of translating awareness to action; the whole management team/line manager undertaking the role of HR; and the HR decision-making process being concentrated mainly in the hands of owner/managers or the management team (Harry 1999, Marlow 2000).

Looking at the HR/personnel role in enterprises in China, a 'traditional' Chinese PM has been mentioned by a number of researchers. As illustrated in Chapter 4, a 'traditional' Chinese PM is a system of PA, which is controlled by the state and dominated by state sectors (Cooke 2005). As mentioned previously, this system was widely known in China as the 'iron rice bowl' policy, and the major features involved the implementation of the 'jobs for life' and 'cradle-to-grave' welfare arrangements for those working in urban industrial SOEs. Under this system, the PA department was in charge of recruiting and allocating new workers, arranging training and promotion, and managing the personnel file ('dangan'), in which the worker's employment history and political behaviour was secretly recorded. The personnel file was very important as it followed each individual when they changed their job, and could be used as an important measure to promote or punish someone (Warner 1997). As Child (1994) observes, the personnel function in the organisation in China is an area of importance for the Party, acting as a vehicle for ensuring conformity.

Although labour-management reforms have occurred since 1978, a number of studies demonstrate that the old form of PM practices is still more common in Chinese enterprises, especially in SOEs (see Table 5.1). For example, Goodall and Warner (1997) found that the role of the personnel manager in SOEs placed far more emphasis on 'bureaucracy', 'supervision' and 'control'. In addition, they argue that most activities of the personnel department, including allocating workers to departments, deciding and allocating wages, and setting production quotas and standard production times, were not associated with personnel function in the West (Goodall and Warner 1997). Likewise, Benson et al.'s (2000) study of six Chinese manufacturing enterprises shows little evidence of a strategic role played by the personnel managers. More recently, however, a survey conducted by Zhu et al. (2005) has demonstrated that the strategic role of the HR function is becoming more prevalent in China. Since the focus of these studies were mainly on larger enterprises (1000 employees plus), as one of strongest predictors of HRM practices, the first research question of the current study is, what is the role of HR/personnel function in SMEs in their strategic decision-making?

Table 5.1 Empirical Findings on the Transition of PM to HRM in Enterprises in China

Author(s)	**Year**	**Ownership Form**	**Key Findings**	**SMEs Focus (< 500 employees)**
Goodall and Warner	1997	JVEs and SOEs	• Strong evidence of institutional and organisational continuity in 'iron rice-bowl' practices in both JVEs and SOEs.	No (< 7000 employees)
Warner	1999	SOEs, COEs, PEs, and JVEs	• Confirms there is a degree of institutional continuity with past work-unit.	Part (medium sized firms)
Verburg et al.	1999	JVEs and SOEs	• Chinese PM will remain more rules and discipline oriented over the coming years.	Part (medium-sized firms)
Benson et al.	2000	SOEs and JVEs	• Little evidence of a strategic role played by the personnel managers. • Employee relations can be characterized as midway between the old communist approach and Western/Japanese HRM.	No
Glover and Siu	2001	SOEs, JVEs, COEs, PEs	• The legacy of the 'iron rice bowl' policy still has an impact upon some respondent managers.	Part (50 out of 129 firms < 500 employees)
Zhu and Dowling	2002	SOEs, COEs, PEs and FIEs	• The traditional practices were more prevalent in SOEs and COEs than in PEs and FIEs.	No
Hassard et al.	2004	SOEs and FIEs	• A traditional ideology of egalitarian reward has persisted in SOEs.	No
Zhu et al.	2005	SOEs, PEs, COEs and FIEs	• A strategic role for the HR function and the implementation of 'Western' HRM practices are becoming more prevalent in China.	No

5.3.2 Research Question 2: To what extent are HRM practices applied to SMEs?

Even though there is not one fixed list of generally applicable HRM practices or system of practices that defines or constructs HRM, the literature illustrates that training, employee participation, information sharing, performance-related pay, and extensive recruitment and selection are the key components among HRM 'best practices' that are most frequently cited by most HRM studies (see Table 3.5 in Chapter 3). In a review of 104 empirical studies in HRM between 1994 and 2003, moreover, Paauwe and Boselie (2005) found that training and development, contingent pay and reward schemes, performance management (including appraisal), and careful recruitment and selection were top HRM practices that might 'reflect the main objectives of most conceptualisations of a strategic HRM programme' (Paauwe and Boselie

2005:73). Further, it is believed that, in the context of studies of SMEs, aspects of employee relations that have a direct impact on the adoption of HRM practices, such as communication, direct participation, decision making and labour-management relations, are highly relevant for understanding the nature of SMEs, (Barrett 1999, Marlow 2002, Bacon and Hoque 2005) (see Chapter 3). Following the previous HRM studies on SMEs (Harry 1999, Marlow 2000), therefore, four major categories of HRM practices are used to give a good coverage of the main areas of HRM in SMEs, namely, employee resourcing, development, rewards and relations.

Looking at these four key categories of HRM practices, there are a few studies in SMEs in China although evidence is limited and sparse. For example, a survey of recruitment practices in SMEs in Guangdong, Southern China indicates that employee resourcing is informal and the impact of contextual factors on the practices remains as over 80 per cent of jobs are found through family, friends and village networks (Hare 1999). In contrast to larger firms, Ding and Warner (2001) point out that training is minimal in small firms. In the reward system, Ding and Warner (1999) also argue that the wage structure in the SOEs still remains relatively 'flat', which reflects an egalitarian mentality persisting in that sector. Further, Garnaut et al. (2001) reveal that the role of workers is limited in most SMEs' important decision-making processes due to their weak collective bargaining power in the firm. Again, Cooke (2002) concludes that the emerging pattern of development in SMEs in China seems to share some similarity with that in Western countries, such as inequality of bargaining power between employee and employer, and job insecurity. These studies look at certain aspects of HRM in SMEs; however, it is difficult to draw generalized conclusions on the nature of people management of SMEs as a whole due to the differences in sample size, location of the study and ownership forms and in the various HRM practices on which these studies focused.

Therefore, in order to gain a clearer picture of people management of SMEs in China, the second question of the research is to what extent are HRM practices applied in SMEs in China? A number of specific issues are addressed. For instance, what kinds of hiring and selecting techniques do SMEs use? What training activities are provided in SMEs? What is the major reward system implemented in SMEs? What kinds of communication processes are commonly adopted in SMEs?

5.3.3 Research Question 3: What institutional and cultural factors affect HRM take-up in SMEs?

While the vital role of HRM in enterprises that aim to gain an SCA has been demonstrated by a number of studies, some researchers note that the transferability of HRM between nations is problematic (Boxall 1996, Rowley and Benson 2003). Recently, in addition, there has been increased sensitivity to context and more emphasis placed on the institutional settings that shape HRM across industries (Oliver 1997, Boselie et al. 2003, Bach 2005) (see Chapter 3).

In relation to HRM in China specifically, a number of studies have demonstrated Chinese culture and institutional factors still have a strong impact on HRM practices (Wong et al. 2002, Wright et al. 2002, Gamble 2003). For instance, Easterby-Smith et al. (1995) state that the differences in HRM between China and the UK can be linked to known cultural factors such as the greater concern for relationships, harmony and the preservation of 'face' in China. Wright et al. (2002) argue that 'guanxi' is a major factor in the respondents' lives and in turn, that 'guanxi' can affect work behaviour. Again, the interview conducted by Siu (2000, 2001) demonstrated that doing favours to others, creating trust and creditworthiness, and establishing social networks are key determinants for the business success of SMEs in China.

In addition, the importance of national institutions in the development and continued effectiveness of a particular business structure and of practices in East Asia is highlighted by various authors (Orru et al. 1991, Whitley 1992). For example, Whitley (1992) argues that the dominant role of the state has a strong influence on the economic system; a strong family identity reinforces hierarchy-market relations; a weakly developed legal system encourages a great reliance on personal trust and relations in business transactions; and the education system results in a labour market that features a lack of strong occupational identities and commitments built around standardized, certified skills. Ding and Warner's (1999) study supports this argument. They found that institutional and organisational inertia, due to old habits and mind-sets lingering on, may mitigate the impact of legislation and reform measures in both SOEs and JVEs, and may well even limit the change of HRM in some JVEs. In other words, specific national institutions encourage and constrain specific features of business structures and managerial practices in order that they might become established and relatively effective.

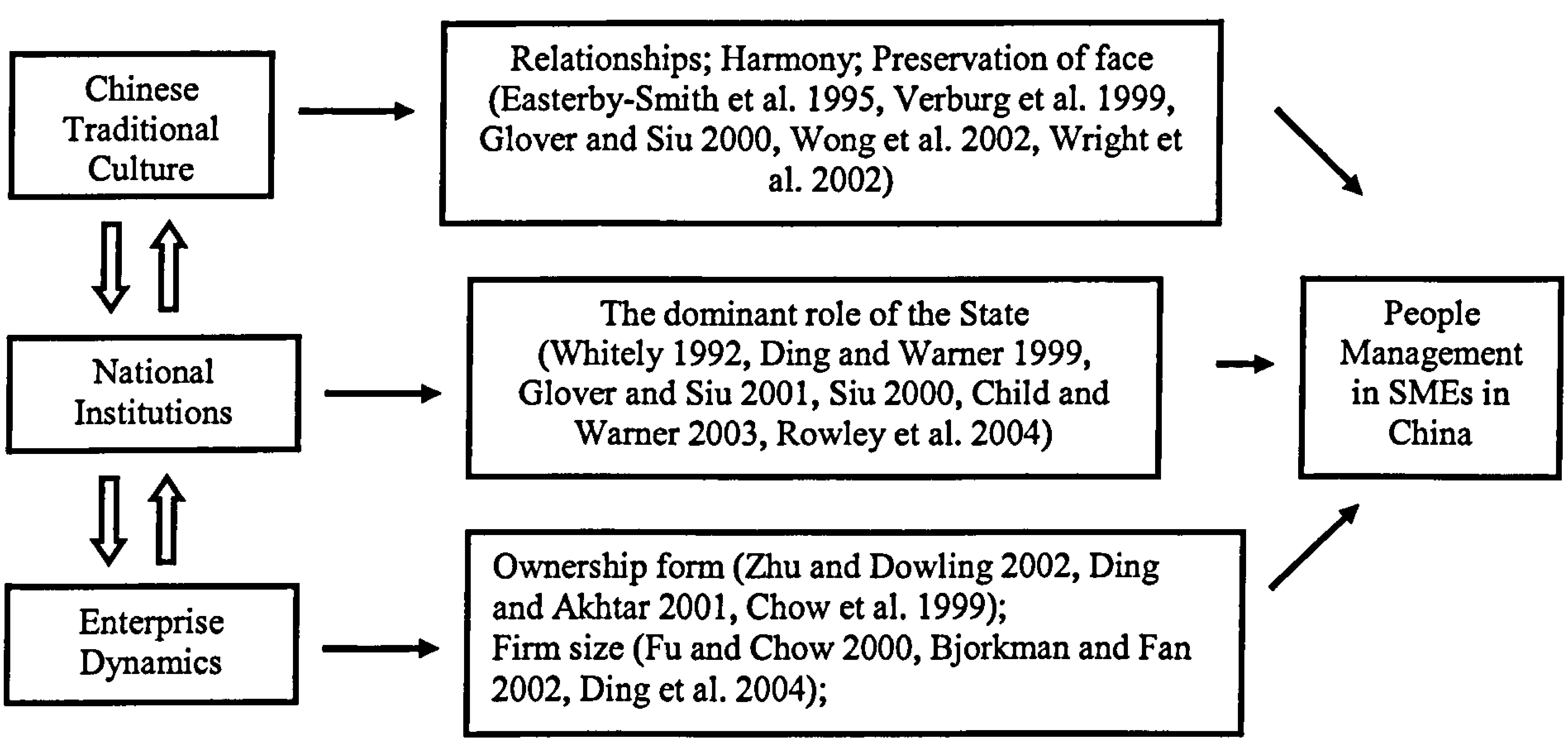
While culture and institutions directly affect the HRM take-up in China, they also influence the process indirectly through their impacts on firm type and pattern of behaviour. For instance, Warner (1999) claims that the extent to which HRM practices are implemented in the enterprises is constrained by 'organisational inertia'. This inertia is characterized by factors that serve as barriers to organisational change in the Chinese context, particularly the cultural and institutional heritage of Chinese organisations, reflected in the ownership, size, history and location of the firm (Ding et al. 2000). Empirical studies support this argument. For example, Fu and Chow (2000) point out that the size of TVEs may be an institutional factor affecting the implementation of formal HRM practices. Likewise, Ding et al.'s (2004) study of 20 TVEs (SMEs<500 employees) reveals that size is a key determinant for the formalization of HR practices. The study of 326 JVEs and SOEs by Ding and Akhar (2001) shows that ownership is one of the key variables in explaining an organisation's choice of HR practices in China. Similarly, a survey carried out by Zhu and Dowling (2002) demonstrates that ownership form does have an impact on staffing practices in Chinese enterprises. Again, Chow et al. (1999) found that types of ownership and size are key factors in understanding job generation and reallocation.

Based on major empirical studies of HRM in enterprises in China between 1995 and 2006, it is evident that contextual factors have an impact on the take-up of HRM in China (see Table 5.2). Among all the various factors, additionally, cultural factors (i.e. harmony, relationship, preservation of 'face'), national institutions (i.e. the state), and enterprise dynamics, namely, organisational characteristics (i.e. patterns of ownership and firm size) have emerged as key aspects that affect the adoption of HRM in China.

Following with the above discussion, Figure 5.2 shows that the cultural variables pre-determine the institutional ones as they pervade social relations both at work and outside the organisations (Warner 2001). It also illustrates that the cultural and institutional influences can be reflected in enterprise characteristics, such as ownership and firm size. In accordance with the argument made by Rowley and Benson (2003), moreover, Figure 5.2 demonstrates that there are three different levels of determinants on the changes of people management in SMEs in China, and that these determinants are interrelated. As Rowley and Benson (2003) predict, two scenarios of change in people management might happen in a transitional economy. In the case of people management in SMEs in China, therefore, we assume that change in HR practices at enterprises will increase the pressure for reform at higher levels (i.e. national institutions, traditional cultural values), while in the meantime, radical economic reforms at higher levels will affect the implementation of HRM practices (i.e. internal dynamics) at firm level, as it makes HR more uncertain and difficult to manage.

This study not only integrates the idea of levels of change in HRM (Becker and Gerhart 1996, Rowley and Benson 2003, Boxall and Purcell 2003), but also tries to link the HR systems with various cultural and institutional forces. This is because the researcher recognizes the importance of a need to have less focus on convergence as a measure of HRM adoption and a need to pay more attention to how systems develop and change to accommodate various cultural, institutional and macro-economic forces (Rowley and Benson 2003).

Figure 5.2 Cultural and Institutional Factors on People Management in SMEs in China



Thus, the third research question for the current study is, what are the institutional and cultural factors that affect HRM take-up in SMEs?

Table 5.2 Summary of the Effects of Contextual Factors on HRM in China

Authors (Year)	Sample Size (Ownership Form)	Main Findings
Easterby-Smith et al. (1995)	Large firms (Chinese vs. UK)	• Strong *cultural factors* which limit the adoption of many features of HRM in China
Goodall and Warner (1997)	Large (JVEs and SOEs)	• Strong evidence of *institutional and organisational continuity* in 'iron rice-bowl' practices in both JVEs and SOEs. • *Infrastructure of Chinese management-labour relations* still appears to be relatively well embedded in specific enterprises, at least in terms of the formalities of worker representation.
Ding and Warner (1999)	Large (JVEs and SOEs)	• *Institutional and organisational inertia* due to old habits and mind-sets lingering on may mitigate the impact of legislation and reform measures in both SOEs and JVEs and may well even constrain the change of HRM in some JVEs.
Verburg et al. (1999)	Large (JVEs and SOEs)	• Supports that contextual boundaries in terms of *cultural characteristics* limit the applicability of some HRM in non-Western countries.
Chow et at. (1999)	Small, Medium, and Large (various forms)	• Types of *ownership and size* are key factors in understanding job generation and reallocation. (i.e. JVE and small enterprises have higher rate than large and other types of firms.)
Benson et al. (2000)	One in six (SOEs and JVEs)	• Little evidence suggests a *cultural change* taking place that would facilitate consensus, flexibility and commitment.
Ding, Goodall and Warner (2000, 2002)	Large (JVEs and SOEs)	• *Ownership, size and location of the firm* are the main factors affecting the evolution of HRM.
Fu and Chow (2000)	Large (TVEs)	• *Size* may be an institutional factor affecting the implementation of formal HRM practices.
Ding, Lan and Warner (2001)	Large (TVEs)	• *Ownership, employee size, location, regional variations, stage of technological/product development and profitability* of TVEs are the influences of the key variables shaping HRM practices.
Ding and Akhtar (2001)	Large (JVEs and SOEs)	• *Ownership* is one of key variables in explaining an organisation's choice of HRM practices.

Siu and Glover (2001)	Part (50 out of 129 firms < 500 employees) (SOEs, JVEs, COEs, PEs)	• Illustrate that the importance of *cultural and political processes* within China based organisations
Siu (2001)	SMEs (Chinese vs. UK vs HK)	• Business success will not be influenced solely by market, but by product quality, *personal networks, relations with government officials* and company/brand reputation. • The type of *ownership* does influence the performance of Chinese firms.
Bjorkman and Fan (2002)	Large (JVEs)	• *Cultural-institutional context* may moderate the relationship between HRM and performance, and that contextual differences may be found across individual HRM practices. • *Firm size* had a marginally positive effect on organisational performance
Wong et al. (2002)	Large (JVEs and non-SOEs)	• *Traditional cultural values of loyalty and personal network* still play an essential role in affecting Chinese employees' work related attitudes and behavior.
Zhu and Dowling (2002)	Large (SOEs, COEs, PEs, FIEs)	• *Ownership* form does have an impact on staffing practices.
Wright et al. (2002)	/	• *Guanxi* is a major factor in the respondents' lives and in turn, that guanxi can affect work behavior.
Child and Warner (2003)	/	• *The underlying norms and values* may reflect continuity as much as change.
Ding et al. (2004)	Part (<200; 200-500; >500)(TVEs)	• *Size* is a key determinant of formalization of HRM practices.
Hassard et al. (2004)	/ (SOEs)	• Significant barriers to implementation exist, notably the *historical legacy* of SOEs and a poorly developed mgmt development system
Wei and Lau (2005)	/ (SOEsvs non-SOEs)	• The effects of *ownership and size* as a moderator on the adoption of HRM were not significant.
Ding et al. (2006)	Part (SMEs=64% of total firms) (various)	• All organisational variables (i.e. *ownership, industry, age, location*) except firm size have impacts on managerial compensation levels.

Note: '/' – not available

5.4 Conclusions

This chapter presented a conceptual framework and research questions for the current study. It summarized the literature in the previous chapters and concluded that there are two main aspects that need to be considered in a study of people management in SMEs in China, namely, the key characteristics of SMEs and contextual factors involved in SMEs, such as institutional and cultural backgrounds. The three research questions were identified, as there are deficiencies in the analysis of HRM in SMEs in China. By examining the role of the HR/personnel function, the extent of four major categories of HRM practices, and the contextual factors that affect the adoption of HRM, the current research will provide a clearer picture of HR practices in SMEs in China, and therefore, a better understanding of people management in SMEs in China. The next chapter will discuss the research methods that were applied in the process of collecting and analysing the research data.

CHAPTER SIX
Research Methodology

6.1 Introduction

This chapter is concerned with the overall research strategy and methods and how they were developed for this particular research project. The key to the methodology in the study was an attempt to encompass many areas of information gathering so as to establish a more realistic and holistic point of view on HRM development in SMEs in China.

First, the philosophical issues that lay in the background of the research were considered, as these provided the rationale for the possibility of combining a variety of research approaches within the same piece of research. Second, the different research options available were compared; the reasons for the final choices are highlighted in this chapter. An appropriate research strategy, which combined qualitative and quantitative research methods, was chosen. Third, applied techniques in data collection and analysis were considered, with special reference to questionnaires and semi-structured interviews. Finally, the limitations, difficulties and problems that occurred during the current research process were addressed.

6.2 Research Paradigms

As Blaxter et al. (2001: 59) point out, 'underpinning research tools are more general philosophical questions about how we understand social reality, and what are the most appropriate ways of studying it.' Easterby-Smith et al. (2002) also argue that philosophical issues are central to the notion of research design as they help researchers to clarify this area, to recognise which designs will work and which will not, and to identify designs that may be outside their experience. Thus, it is important to understand the different research paradigms underlying research methods and designs so as to provide a balanced view during the research process.

A paradigm is 'a cluster of beliefs and dictates that for scientists in a particular discipline influence what should be studied, how research should be done, and how results should be interpreted' (Bryman 1988: 4). Traditionally, there are two main research paradigms in social science research: positivism and phenomenology. They represent two contrasting views of how social science research should be conducted. The distinction between paradigms may be clear at the philosophical level (Burrell and Morgan 1979); however, the distinction breaks down when it comes to the choice of specific methods, and to the issues of research design (Punch 1986). In addition, as many researchers believe, research problems require compromise designs that draw from more than one tradition (Blaxter et al. 2001, Easterby-Smith et al. 2002). Therefore, a relativist paradigm emerged, because it 'makes a conscious compromise between the extreme positions' (Easterby-Smith et al. 2002: 33).

Table 6.1 Strengths and Weaknesses of Research Paradigms

Paradigms	Strengths	Weaknesses	Examples in HR Studies
Positivist (Quantitative Method)	Provides wide coverage of the range of situations; Fast, economical, especially when statistics are aggregated from large samples; Considerable relevance to policy decisions	Research methods tend to be artificial and inflexible; Not very effective in understanding processes or the significance that people attach to actions; Not very helpful in generating theories; Difficult for the policy maker to infer what changes and actions should take place in the future	Pugh and Hickson's study (1976) of organisational structure in the West Midlands of England, and in other parts of the world Hofstede's study (1984, 1991) on the effect of national cultures on social and work behaviour
Phenomenon -logical (Qualitative Method)	Has the ability to look at how change progresses over time, to understand people's meanings, to adjust to new issues and ideas as they emerge, and to contribute to the evolution of new theories; Provides a way of gathering data that is seen as natural rather than artificial	Time-consuming; Difficulties in the analysis and interpretation of data; Difficulties in control the pace, progress, and end points; Low credibility as it is based on 'subjective' opinions	Melville Dalton's study (1959) of managerial work in the company Tony Watson's research (1994) on managerial competencies in the new business environment
Relativist (Mixed Methods)	Accepts the value of using multiple sources of data and perspectives Enables generalizations to be made beyond the boundaries of the situation under study; Can be conducted efficiently, such as by using outsourcing	Costly, as large samples are required if results are to have credibility; May not be able to deal effectively with the cultural and institutional differences found within international studies because of the requirement for standardization; Difficult to reconcile discrepant sources of data that point to different conclusions	Teagarden et al. 's study (1995) on HRM practices in 10 different countries Tsang's study (1997, 1999) of 19 Singaporean companies with business experience in China

Source: Adopted from Easterby-Smith et al. (2002:42)

Table 6.1 shows the strengths and weaknesses of the three main paradigms that may underlie research practices. As Easterby-Smith et al. (2002: 33) state, relativism 'recognises social conditions... as having real consequences whether or not they are observed and labeled by social scientists; but it also recognizes that concepts are human constructions'. Hence, the literature suggests that relativism provides more perspectives on the phenomena being investigated (Blaxter et al. 2001). Moreover, because relativism is seen as a useful compromise that can combine the strengths, and avoid the limitations, of positivism and phenomenology, therefore, relativism was favoured in this particular research project.

6.3 Research Strategy

For Saunders et al. (1997), research strategy is concerned with the overall approach adopted in the research process. Robson (1993) lists the three traditional research strategies: experiment, survey and case study. In general, Yin (1994) points out, each strategy has specific advantages and disadvantages, depending upon three conditions: the type of research question, the control an investigator has over actual behavioural events and the focus on contemporary as opposed to historical phenomena. As Arbnor and Bjerke (1997: 5) mention, 'you can never empirically or logically determine the best approach. This can only be done reflectively by considering a situation to be studied and your own opinion of life.' Therefore, two of the main types of designs frequently used in workplace research (Bratton and Gold 1999) - surveys and case studies - were examined for this particular research.

6.3.1 Quantitative versus Qualitative Approaches

Using qualitative methods, such as a survey, is a popular and common strategy in business and management research (Saunders 1997). Based most often on the questionnaire, the survey provides a vast amount of standardized and quantitative data, which can test theories and allow easy comparison by the use of statistical analysis (Hussey and Hussey 1997).

Yet, some researchers point out that the high degree of structure in a survey design appears to create a relative lack of naturalism. In addition, it gives little opportunity for the respondent to articulate the ways in which he or she personally conceptualizes and understands the matters of interest. As Remenyi et al. (1998) argue, the nature of the evidence gathered by means of a questionnaire is relatively superficial, especially in comparison with the evidence collected from other techniques, such as case studies or personal interviews. Further, surveys are considered to be relatively weak in internal validity as compared with experiments. This is because correlation does not prove causation. For Blaxter et al. (2001), the presence of a correlation is a necessary, but not sufficient, proof of a casual relationship. Again, the presence of a correlation gives little indication of the direction of causation between independent and dependent variables unless some temporal ordering is evident (Blaxter et al. 2001).

With regard to the study of HRM in particular, there are some further limitations in the use of a quantitative research approach. For example, McCarthy (1994) points out that one of the major problems in a survey research design in the HRM area is that the information from questionnaires tends to be biased because the data are largely generated from one major source, typically personnel managers. Moreover, while senior managers in general may suffer from survey exhaustion, a variant on this may arise within a specific survey, where length leads respondents to seek the easy option to accelerate the process of survey completion (Guest 2001, Blaxter et al. 2001).

In contrast to quantitative methods, qualitative approaches, such as case studies and interviews, have been highlighted by many researchers as the preferred strategy when 'how' or 'why' questions are being posed, when the investigator has little control over events, and when the focus is on a contemporary phenomenon within some real-life context (Robson 1993, Yin 1993, Remenyi et al. 1998, Bryman 2001). For example, in a study of the adoption of HRM practices in 16 small and medium-sized manufacturing organisations (<500 employees), Duberley and Walley (1995: 895)) argue that 'the use of case studies should overcome the problem identified by Guest (1990), namely, that what companies tell the world they are doing can hide other practices that they may be less keen to publicize'. In a comparative study of small business management (<500 employees) among 94 American firms and 37 Hong Kong firms, Siu (2000) also found that quantitative research methods (i.e. a survey) might not be very useful when trying to determine how and why Chinese small firms performed as they did. Instead of using a survey approach, Siu (2000) suggested that qualitative research methods, such as in-depth personal interviews or case studies might be one of the possible alternatives for advancing the knowledge of management of Chinese SMEs.

Moreover, many researchers conducting studies of HRM in SMEs (Ram 2001, Torres and Julie 2005, Edwards and Ram 2006, Harney and Dundon 2006), Chinese HRM (Ding et al. 2001, Gamble 2003, Warner and Zhu 2004) and HRM in Chinese SMEs (Cooke 2002, Zheng et al. 2006) have used qualitative approaches for their research. Additionally, it is evident that a qualitative research design is the dominant method that has been applied in most HRM studies in China. For example, Table 6.2 shows that 19 out of 41 major HRM studies in China between 1996 and 2008 (almost 50 per cent) adopted case studies or interviews as their research methods, while the rest of those researches were conducted by using mixed-methods (12 studies) or surveys (10 studies) respectively.

Despite some researchers questioning to what extent the qualitative approach can provide for scientific generalization (Bratton and Gold 1999, Blaxter et al. 2001), other researchers argue that the goal of the investigator in a qualitative study is to expand and generalize theories and not to enumerate frequencies (Yin 1994, Bryman 2001). Since it seemed more appropriate to the study of inter-organisational processes, initially, a qualitative research design, namely, case studies, was chosen by the researcher for the current research.

However, problems and difficulties in conducting a case study research design emerged during the pilot work (for details, see section 6.5.1) and problems with initial contacts developed at a later stage. One of the huge obstacles in the research was that a majority of owners and managers showed reluctance and made difficulties when they realized the full extent of the involvement required of them, even through personal connections. Additionally, the researcher was aware that there was a possibility of bias in the results because of the technique utilized in the case study approach, either via the inherent limitations of any single method (Denzin 1970) or due to the effect of the researcher on the situation itself (Marchington 2002). Further, the results from the pilot study showed that the very complexity of a case could make analysis difficult. For instance, the delimitations of the study (Hussy and Hussey 1997), in other words, where the researcher was going to place the boundaries, were debatable. Hence, the research strategy was reconsidered given the limitations of the approach, and time and resource constraints.

Table 6.2 Summary of Research Methods Used in Major HRM Studies in China (1996-2008)

Author(s)	SME Focus	Year	Research Method
Warner, M	No	1996	Interview
Goodall, K and Warner, M	No	1997	Case study
Ding, Fields, and Akhtar	No	1997	Survey
Goodall, K. and Warner, M.	Part	1998	Interview and questionnaire
Chow, Fung and Yue	Part	1999	Firm-level panel data
Ding and Warner, M	No	1999	Interview with semi-structured questionnaire
Guthrie, D.	No	1999	In-depth interview
Verburg et al.	No	1999	Survey and interview
Warner, M	No	1999	Case study
Zheng, C	Yes	1999	Interview
Benson, J. et al.	No	2000	Case study
Ding, Goodall and Warner	Part	2000	Case study
Fu and Chow	No	2000	Survey with semi-structured interview
Glover, L. and Siu, N	No	2000	Case study
Siu, W	Yes	2000	Interview
Bjorkman, I. and Lu, Y.	Part	2001	Semi-structured interviews and questionnaire
Ding, Lan and Warner, M	No	2001	Case study
Ding and Akhtar	No	2001	Survey
Lee, G.O.M. and Warner, M	No	2001	Interview
Schlevogt, K	Half	2001	Survey and case study
Siu, N.Y.M and Glover, L.	Part.	2001	Questionnaire and case study
Siu, W	Yes	2001	Interview
Bjorkman and Fan	No	2002	Interview with questionnaire
Cooke, F.L	Yes	2002	Case study and interview
Ding, D.Z. et al.	No	2002	Interview
Mok, K. et al.	No	2002	Interview and survey
Price, R.H. and Fang, L	No	2002	Survey
Wong et al.	No	2002	Semi-structured interview and longitudinal study
Wright, P. et al.	No	2002	Survey and Interview
Gamble, J	No	2003	Case study
Ding, D.Z. et al.	Part	2004	Case studies and interview
Hassard, J. et al.	No	2004	Surveys and interview
Ng, Y.C. and Siu, N.Y.M.	Part	2004	Survey
Warner, M. and Zhu, Y.	Part	2004	Case studies
Cooke, F.L.	Yes	2005	Survey
Ding, D.Z. et al.	No	2006	Survey
Zheng, C. et al.	Yes	2006	Survey with semi-structured interview
Wang and Qiao	Yes	2007	Semi-structured interview
Ngo, Lau and Foley	No	2008	Survey
Akhtar, Ding and Ge	No	2008	Survey

6.3.2 Mixed Methods – Triangulation

A triangulation strategy implies that 'the results of an investigation employing a method associated with one research strategy are cross-checked against the results of using a method associated with the other research strategy' (Bryman 2001: 447). Denzin (1970: 297) also defines triangulation as 'the combination of methodologies in the study of the same phenomenon'. He argues that greater validity and reliability can be obtained if the conclusions made by using different methods are the same in studying the same phenomenon. Likewise, Ichniowski et al. (1996) suggest that the key to credible results is creating a collage of studies that use different designs with their own particular strengths and limitations. Moreover, the advantages of combining quantitative and qualitative research approaches have been acknowledged by a number of researchers (Hofstede 1984, Teagarden et al. 1995, Tsang 1999, Guest 2001, Easterby-Smith et al. 2002). Further, some empirical studies of HRM and of HRM in SMEs have used a triangulation approach to reinforce mutually their overall results (see Table 6.2 and 6.3).

Table 6.3 Mixed Research Methods Utilized in the Study of HRM in SMEs

Authors	Year/Country	SME Defined	Mixed Methods
Cassell, C.et al.	2002 /UK	SMEs (<250 employees)	Telephone Survey and interview
Marlow, S	2002/UK	44 manufacturing firms (<200 employees)	Questionnaires and interview
Barrett, R	1999/Australia	Small service (<20 employees) and manufacturing firm (<100 employees)	Survey and semi-structured interviews
Sanz-Valle, R. et al.	1999/Spain	200 SMEs (>25 employees and 53.3% firms <50 employees)	Interview and structured questionnaire
Wong, C et al.	1997/UK	138 firms (25-500 employees)	Survey and case studies
Bacon, N. et al.	1996/UK	229 SMEs (<200 employees)	Survey and case studies
MacMahon, J	1996/Ireland	84 small manufacturing firms (<100 employees) vs. 91 firms (>100 employees)	Survey and case studies
Welbourne, T.M. and Andrews, A.O.	1996/USA	136 non financial firms (50% firms <110 workers and 20% >=700 employees)	Secondary data and telephone interviews
Ng, I. and Maki, D.	1993/Canada	356 manufacturing firms (295 firms <200employees; 59 firms >200)	Interview with structured questionnaire
McEvoy, G.M.	1984/UK	416 units (10-100 employees)	Survey and Interview

The researcher believed that several benefits could be gained in this particular research project by combining quantitative and qualitative approaches. First, the logic of triangulation means that the findings from one type of study could be tested against the findings derived from another type. Second, a general picture of the research subject could be provided. In other words, quantitative research might be employed to plug the gaps that might arise in a qualitative study, for example, when the researcher was unable to attend appointments due their being at the same time but in different places, or because not all issues were amendable solely with a quantitative or a qualitative investigation. Third, regarding structure and process, quantitative research is very efficient at identifying and dealing with the structural features of social life, while qualitative research takes the subject's perspective. Fourth, the addition of some quantitative evidence might help the generalizability of the research findings. Fifth, a qualitative study could help to explain the factors underlying the broad relationship established among variables in quantitative research. Sixth, the gulf between the macro and micro levels of the study could be bridged, as quantitative research can deal with large-scale structural features of social life, while qualitative research tends to address small-scale behavioural aspects. Therefore, given the preference, the resources that were available, the constraints that occurred during the research process and the particular research issues, a mixed-methods research strategy, which combined a quantitative and a qualitative approach, particularly in the data collection and analysis, was adopted in the current study.

6.4 Sampling and Fieldwork

6.4.1 Sampling

<u>The techniques</u>

In an in-depth qualitative assessment of three descriptive data sets, which included survey data from 156 young entrepreneurs, focus group data from 173 CEOs/founders of fast growth firms and a review of 129 research articles in the USA, Heneman et al. (2000) found that there were several major obstacles to conducting research in SMEs, such as the lack of information about HR, the difficulty in gathering data and the reluctance on the part of companies/individuals/management teams to participate in academic studies. Moreover, the difficulties in data collection in a developing market, such as China, have been addressed by various researchers. For example, Cooke (2002:23) mentions that 'in general, academics in China do not have much bargaining power in negotiating research access with business organisations, which do not have a tradition of supporting social science research either in the form of surveys or case studies'. Wright and Hoa (2000) also point out that asking questions in any form is viewed with suspicion. Furthermore, in relation to HRM research in China, the importance of personal relationships in academic research is highlighted, as a number of scholars point out that, without connections, few data are likely to be gathered (Berrell and Wright 1999, Wright and Shi 1999, Glover and Siu 2000, Wright et al. 2002, Cooke 2002, 2005, Ding et al. 2006, Zheng et al. 2006).

Given the difficulty in data collection and the main purpose of this study, it was felt that a judgemental technique would be acceptable, provided no untoward claims of generalizability were made (Weiss 1994). For instance, although a non-probability sampling method in which units of the sample are selected on the basis of personal judgement or convenience (Zikmund 1994) did not ensure randomness, it has been agreed by many researchers that non-probability sampling methods are particularly relevant in exploratory research (Henry 1990, Churchill 1991, De Vaus 2002). Moreover, in an empirical study of high performance HRM practices in 74 Chinese SMEs (<500 employees), Zheng et al. (2006) argue that a non-probability sampling technique would have achieved greater representativeness of the population of interest than a probability-based approach would have due to the difficulties relating to sampling SMEs in China. Further, this approach has been used by other researchers in China, such as Wright et al. (2002), Bjorkman and Fan (2002), Zheng et al. (2006), Wang and Qiao (2007).

Thus, two major non-probability sampling methods, convenience and snowball sampling, were adopted by the researcher in the study. Convenience samples comprise 'those individuals or organisations that are most readily available to participate in the study', while a snowball sample is one 'where the researcher uses an informant to help him or her find the next informant' (Remenyi et al. 1998: 193-94). From the convenience sample, the researcher started to generate more participants through practicing the snowball technique. At the end of each interview session, the researcher usually asked the participant if he or she could suggest anybody else who would be willing to be interviewed, and the researcher would make an appointment to meet the suggested individuals. Thus, a newly identified participant would name others and the sample grew like a snowball.

<u>The location</u>

Both the survey and interviews were conducted in Jiangsu, a province located in the middle of China's East coast and on the lower reaches of the Yangze River (see Figure 1.1 in Chapter 1). The choice of Jiangsu as the location for the research was due in part to its significant role in the nation's economy (see Tables 1.2 and 1.3 in Chapter 1) and in part because there were considerably higher pressures on SMEs to find a better way to compete in a highly competitive market environment.

Jiangsu's industries have become more externally oriented in recent years. Exports increased by 40.6 per cent to US$123 billion while imports grew by 25.9 per cent to US$105 billion in 2005 (Jiangsu Statistical Yearbook 2006). In 2005, wholly foreign-owned overtook JVEs as the dominant mode of FDI in Jiangsu (see Table 6.4). In addition, Jiangsu's services sector has become another hit sector for FDI since China's WTO accession in 2002 and market liberalization. In 2005, for example, FDI in the service sector amounted to nearly US$1.9 billion, accounting for 14.1 per cent of the total, while this share was only 6.5 per cent in 2001 (Jiangsu Statistical Yearbook 2006). Hence, the statistical evidence shows that the business atmosphere in Jiangsu is strongly influenced by FDI and FIEs. As a number of researchers argue (Warner and Zhu 2004, Cooke 2005, Ding et al. 2006), on the one hand, FDI and FIEs introduced Western management concepts and practices into the market, and on the other hand, the entry of foreign investors/companies increased the competition at a local level.

Table 6.4 Changes in the Mode of Actual FDI in Jiangsu (%)

Mode	1985-2005	2005
Total	100	100
Joint Venture	36.9	18.9
Cooperative Operation	4.6	1.5
Wholly Foreign Own	58.1	79
Share Holding With Foreign investment	0.4	0.6

Source: Jiangsu Statistical Yearbook, 2006

Most importantly, the key to this study was that Jiangsu was the top ranked province in the country with respect to both the number of SMEs and industrial output, and the net income of SMEs in 1979 (Byrd and Zhu 1989). Since then, Jiangsu has become a pioneer in advancing SMEs' development. For instance, the famous economic development model – Southern Jiangsu model (SU-NAN Model), including the rules, regulations and policies pertaining to SMEs in Jiangsu - has been widely applied in other South-eastern provinces in China. Moreover, Jiangsu has now developed a strong private sector. Production by the private sector accounted for around 93.5 per cent of the province's total industrial output in 2005 (Jiangsu Statistical Yearbook 2006).

As Warner and Ding (2001) conclude, the people management system in China may be said to 'converge' with international HRM practices within firms that were located in key urban areas. Thus, the researcher assumed that the influence in the market had increased the likelihood of HRM take-up among enterprises in the region, including the majority of the firms – SMEs. Due to these factors, the researcher used Jiangsu province as the research context for assessing the extent of HRM development and experience in SMEs in China.

<u>The respondents</u>

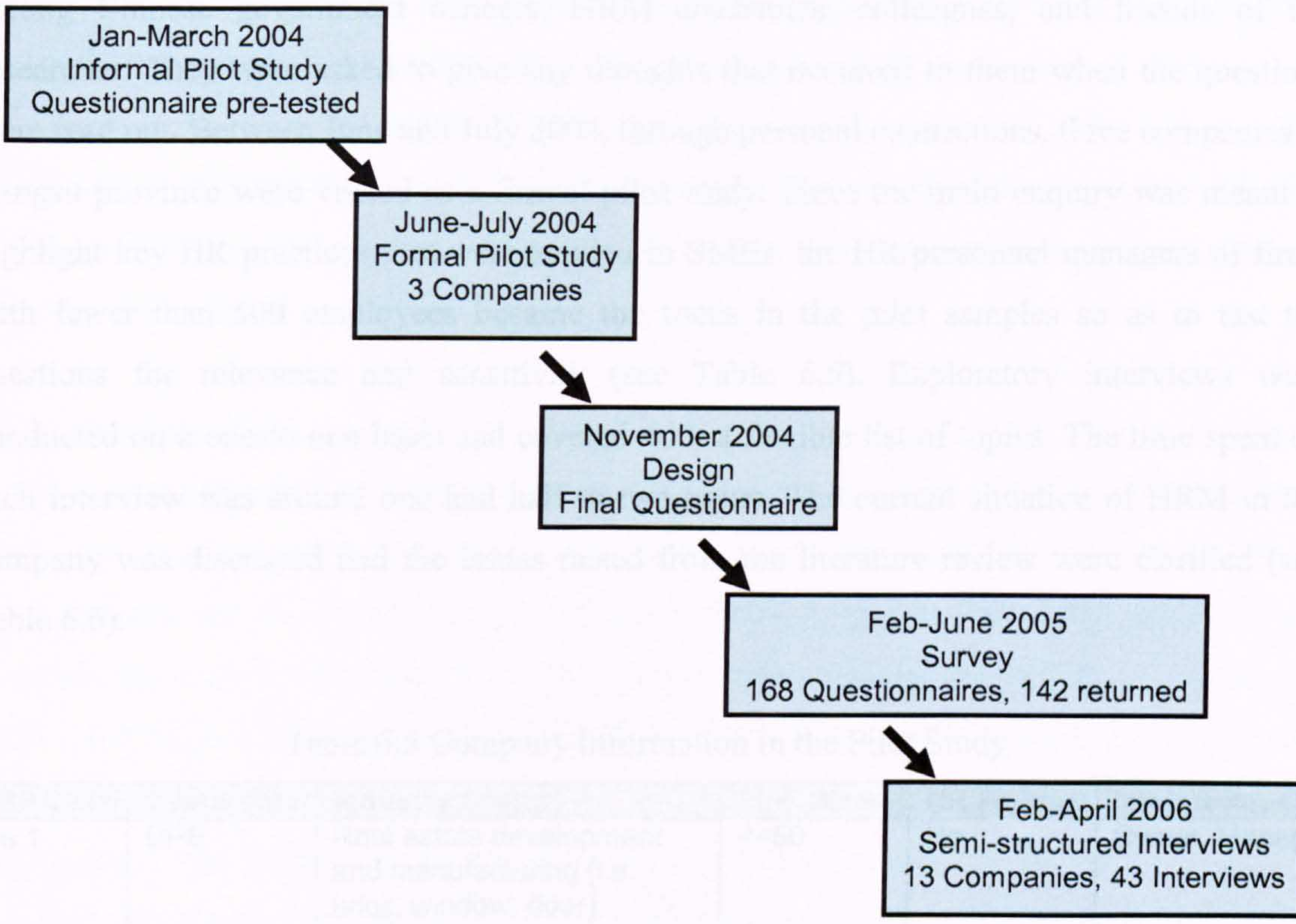
A number of managers, who were mainly responsible for personnel and/or HRs issues, participated in the study. In addition, key actors from different levels in the organisation, including owners, senior managers, employees, line managers and trade union representatives, were interviewed to gain a more comprehensive understanding of HRM development in SMEs in Jiangsu (for details see Chapters 7 and 8). It should be mentioned that the names of individuals and companies cannot be revealed due to the promise of confidentiality.

6.4.2 The Fieldwork

Figure 6.1 illustrates the time scale and research methods in the data collection for this study. It shows that the bulk of the data were collected during the main fieldwork that was conducted in 2005; this followed the earlier period of fieldwork in 2004. The two initial visits in 2004 (January-March and June-July) enabled the researcher to conduct pilot studies, in which the preliminary questions were tested and the contacts that could facilitate the access to the researched companies were secured.

The main fieldwork in 2005 began with the questionnaire survey as the first stage, followed by the in-depth semi-structured interviews. While the use of a variety of HR practices was investigated through the survey, the contextual factors that affect HRM development in SMEs were explored in more detail through qualitative interviews. Although there were advantages and disadvantages in each research technique, the researcher believed that the consistency between the survey findings and interview results would give confidence in the representativeness and reliability of the overall research findings. Hence, based on the results from the two parts of the study, a profile of people management in SMEs was constructed.

Figure 6.1 A Time-scale of Data Collection and Methods for the Current Research



6.5 The Approaches to Data Collection

6.5.1 Pilot Studies

Zikmund (1994: 41) states that a pilot study refers to any small-scale exploratory research technique that uses sampling but does not apply rigorous standards. For Oppenheim (1992: 47), pilot work means 'a whole lengthy process of designing and trying out questions and procedures'. Remenyi et al. (1998) also argue that it is essential that a pilot study be conducted to establish that the proposed questionnaire is intelligible and clear to members of the target population. In order to detect possible shortcomings in the design and administration of the questions in both survey and interviews, the pilot work was conducted in the current research.

As Oppenheim (1992: 62) notes, 'in principle, respondents in pilot studies should be as similar as possible to those in the main enquiry'. Moreover, Hussy and Hussy (1997:163) suggest that 'at the very least, the questionnaire should be tested among friends and colleagues, but as far as possible on people who are similar to the people in the sample'. Thus, before the formal pilot work was conducted, the draft questionnaire was pre-tested informally among Chinese government officers, HRM academics, colleagues, and friends of the researcher. They were asked to give any thoughts that occurred to them when the questions were read out. Between June and July 2004, through personal connections, three companies in Jiangsu province were visited as a formal pilot study. Since the main enquiry was meant to highlight key HR practices that were applied in SMEs, the HR/personnel managers of firms with fewer than 500 employees became the focus in the pilot samples so as to test the questions for relevance and sensitivity (see Table 6.5). Exploratory interviews were conducted on a one-to-one basis and covered with a flexible list of topics. The time spent on each interview was around one and half to two hours. The current situation of HRM in the company was discussed and the issues raised from the literature review were clarified (see Table 6.6).

Table 6.5 Company Information in the Pilot Study

COMPANY	Ownership	Industry Sector	Firm Size	HR Focus	Interviewees
Case 1	DPE	Real estate development and manufacturing (i.e. brick, window, door)	<=50	No	Owner, Manager
Case 2	DPE	Manufacturing (petrochemical product)	< 400	Functional	HR manager
Case 3	FOE	Service and real estate development	< 300	In the transition	Personnel manager

Table 6.6 HR Practices in the Companies in the Pilot Study

Practices	Case 1	Case 2	Case 3
Resourcing	External: none Internal: personal introduction (all managerial positions are occupied by family members or relatives) Selection tools: None	External: labour market, internet, advertising; Internal: internal promotion, personal introduction; Selection tools: interview, written test, and 3-months probation periods	External: labour market, advertising; Internal: internal promotion, personal introduction; Selection tools: interview, written test
Development	None	On-the-job training	On-the-job training: (monthly)
Rewards	None (Yearly bonus decided by the owner)	Yearly bonus (profit-related)	Thirteen months salary; domestic holiday;
Relations	a 'one-person' business Trade Union: none	Trade Union: weak	Managers are involved more than are employees in decision-making.

The pilot work in both January-March and June-July in 2004 helped the researcher understand the meaning of the questions to respondents and how respondents arrived at their response; this helped improve the wording. The pilot also enabled the researcher to compare the effectiveness of different forms of data collection in China, to test and improve scale effectiveness, to examine the quality of the sampling frame, and finally to ensure the integrity of the questionnaire. In addition, from these early, exploratory interviews, a rough shape of the enquiry emerged.

6.5.2 Response Rate

Based on the definition of SMEs in this particular research, some 168 questionnaires were sent out through a personal network between February and May 2005, Jiangsu. After follow-up phone calls and reminders, 142 questionnaires were returned by June 2005 (a high 83 per cent response rate). Returns with incomplete information were omitted, leaving a valid sample of 114 (67.85 per cent response rate). Among these, 13 companies (with 'C' used as an abbreviation for 'company' in the later discussion) granted further access. Since the questionnaire was filled in mostly by senior managers or HR managers, the interviews tended to include informants from different levels of the organisation so as to overcome the problem of using a survey as outlined in section 6.3.1. After discounting questionnaires that could not be filled in due to circumstances beyond the researcher's and the respondents' control, (i.e. the workloads, different timetable, or the position being non-existent within the company), in early 2006, some 43 semi-structured in-depth interviews were conducted with a range of personnel of SMEs, which included owners, senior managers, department managers, line managers, HR managers, trade union representatives and employees so as to help verify the survey findings and explore the development of people management in more detail (for interviewees' details see Table 8.2 in Chapter 8).

6.5.3 First Stage: Questionnaire Survey (Appendix II)

According to Oppenheim (1992:10), a questionnaire is 'not just a list of questions or a form to be filled in, instead, it is a measurement tool, an instrument for the collection of particular kinds of data'. Hussy and Hussy (1997) define a questionnaire as a list of well thought-out questions that have been tested on a trial sample and used with the aim of getting reliable responses from a chosen sample. Since a questionnaire survey is cheaper and less time-consuming than conducting interviews (Hussy and Hussy 1997), and parts of the main purpose of this research are to identify the pattern of implementation of HR practices and define those techniques or policies associated with the recruiting, training, rewarding and participating of HRs, therefore, a questionnaire survey was undertaken so as to provide an overall picture of HR practices in SMEs.

The questionnaire design

The eventual set of questions focused around the areas of interest and gaps identified from the literature review and from discussions of these in the pilot study. It also combined the questionnaire used in an investigation into the Best International Human Resource Practices (Geringer et al. 2002). The final questionnaire for the study covered the respondents' perceptions of HR practices in the company for which they worked. Those practices derived from extensive reviews of research in their respective area (see Chapter 3), and included four major aspects of HRM practices, namely, employee resourcing, development, rewards and relations. In addition to these substantive questions, respondents were also asked about organisational background and individual demographics. Detailed questions, such as their personal views of the HR work in the company, were also included.

Since the range of potential answers was limited, the questionnaire was formed using different types of closed-ended questions designed to make analysis and interpretation easier (Hussey and Hussey 1997). The assumption was that detailed knowledge was available on the attributes of interest and therefore it was possible to pre-specify the categories of response (Remenyi et al. 1998). There were also a few open-ended questions, which gave the researcher an opportunity to obtain some spontaneous responses from the informants (Oppenheim 1992). Some of the questions used a rating scale to assess the degree to which HR practices were applied in the organisation while in other questions, respondents were asked to tick the most appropriate answers. The use of a five-point Likert scale in the study was partly because it allowed a numerical value to be given to an opinion (Hussey and Hussey 1997), and partly because 'a more than five-point scoring method had been shown to possess no advantage' (Oppenheim 1992:195). Furthermore, as there was little literature on HRM theory and practices in China, the questionnaire was designed on the basis of literature from a non-Chinese context. The questionnaire was translated into Chinese and then translated back into English by the researcher. Two native Chinese speakers, with knowledge in Chinese HRM and bilingual ability, checked all the translations before the questionnaire was finalized to ensure the accuracy of the original translation. Previous organisational studies in cross-national settings, including China, have demonstrated the validity of this procedure (Brislin and Sinaiko 1973, Tan and Litschert 1994, Zhu and Dowling 2002, Deng et al. 2003, Zhu et al. 2005).

Contact method

A number of researchers argue that the response rate of mail surveys in China is very low in general compared to personal ones (Zheng 1999, Schlevogt 2001). For example, in a survey on organisational differences in managerial compensation and benefits in Chinese firms, Ding et al. (2006: 698) found that 'in China, it is usually very difficult to collect primary data and the response rate to mail surveys tends to be relatively low'. Likewise, Siu (2000) concluded that traditional Western survey methods, such as a mail survey, would not be very useful in his study on Chinese small business management. Moreover, as discussed previously (see section 6.4.1), it has been widely acknowledged that personal contact is very important when conducting research in China. Further, because of the very nature of SMEs, a number of researchers have stated that many SMEs are reluctant to participate as they see this as time consuming, politically unwise, or simply because they lack interest (Form 1969, Walley et al. 1994, Duberley and Walley 1995).

After graduating from one of the top universities in China, I worked for six years as a business manager. During this time, I developed a broad and trusted personal network both in academics and business in China. In 2005, therefore, the questionnaire and accompanying covering letter (see Appendix I) was distributed via personal networks and collected in person to seek higher response rates and fewer invalid answers. Enormous support had been given by my previous tutors and professors in the university, ex-employers and working partners, and family friends and relatives. Since HR personnel are the ones who would have the most information about HRM practices in the company, we asked personnel or HR managers or officers to complete the questionnaire. If none existed, senior managers were asked, as we assumed that they had the best experience and understanding of the matters being investigated.

The rationale of the questions

The questionnaire was divided into four sections to collect three types of data: demographic or background, behavioral, and attitudinal data.

Section I was concerned with the company's background and its overall situation regarding people management. It covered several major aspects, which included the establishment year of the company, its main industry, annual turnover and net profits (2001-2005), total number and composition of the current labour force, ownership structure and HR functions. Details from this section would provide opportunities to explore some common features of SMEs; the researcher expected that the findings would demonstrate some effects of the political and economic environment on the development of SMEs

Section II dealt with current HR practices. As explained in the previous discussions in Chapters 3 and 5, four major categories of HRM practices are often examined as they give a good coverage of the main areas of people management, namely, employee resourcing, development, rewards and relations; therefore, we used these categories. We measured these four practices in two ways. First, the presence of techniques involved in HR practices was measured by using a dichotomous scale for whether they were actually in effect as 'yes' or 'no'. For example, to measure approaches to the practices in employee development, six questions were asked: 1) Does the organisation offer job training for employees? 2) How many hours of training does a new employee receive in the first year of employment? 3) How many hours of training per year do an experienced employee (> 1 year working experience) receive? 4) Which training methods are applied in the organisation? 5) Which off-site training methods are employed in the organisation? and 6) What are the purposes of the training and development practices in the organisation? The items of each question were developed on the basis of the relevant literature (Wood 1999, Von Glinow et al. 2002, Geringer et al. 2002, Rowley 2003). Second, the degree to which each practice was applied was rated with a five-point Likert-scale (5 equals 'great extent' and 1 equals 'little extent'). The respondents were asked to evaluate the practice their companies usually adopted and tick one appropriate rating scale. Some 21 items were developed across four HRM categories and used in the questionnaire. Answers here could provide an overall picture of current people management in the companies.

Section III focused on the impact of traditional cultural values on SME business operations. Since Chinese culture is a very abstract concept, few studies attempt to measure the characteristics of Chinese culture by scale development, except Schlevogt (2001). Therefore, the current study adopted its cultural dimensions from Schlevogt's (2001) study. However, it is important to be aware that 'the dimensions do not reflect the desire to cover all aspects of

Chinese culture. [Instead], it attempts to measure the emphasis on a very limited number of characteristics of Chinese culture' (Schlevogt 2001: 11). In the end, eight dimensions were listed. Responses were on a five-point Likert-scale (5 equals 'great extent' and 1 equals 'little extent'). It was expected that these dimensions would help identify any cultural factors impacting on HR practices in SMEs.

Section IV asked general questions about the respondents including their age, gender, educational qualifications, the duration of employment and current position. These allowed data regarding people management in SMEs to be given from different perspectives.

The difficulties

Several issues emerged during the survey research. First, different political, economic, social and cultural considerations led to a reinterpretation of management agendas at a local level. For example, in carrying out the pilot studies, the researcher was aware that identical questions about specific HRM tools or issues were interpreted differently by respondents within their cultural and legal context. In addition, respondents were variously unable to provide answers for certain questions, such as turnover and net profit. Some respondents claimed that they simply didn't have the figures since the firm only set up a couple of years ago. Others were unwilling to share such information because they were concerned that the figures might result in some negative feedback, such as complaints or tightening regulations from local government. However, the questionnaire was carefully designed to allow some further checking of the initial basic claims.

Another problem was that the actual level of rating was difficult to interpret. In other words, a low rating for a particular item might reflect that the firm was very good already in the area under question and so the respondent no longer thought the issue critical. For instance, one respondent argued that it was difficult to evaluate the effectiveness of training since the standards of the companies were different. He pointed out that,

> Some companies may spend more time on training than we do. Yet, one of the major reasons may be due to the poor quality of the workforce. In our company, conversely, 90 per cent of employees have graduated from a professional college, and have obtained a technical qualification. In addition, more than 50 per cent of all the technicians excel at more than one subject. Therefore, the focus of our training is

different from theirs. Furthermore, the time and budgets allocated to training are also different.

The survey findings were limited not only by cultural constraints and future expectations, but the survey examines perceptions at only one point in time. Therefore, great care was taken in interpreting the survey results and, where possible, supporting the survey findings by reference to other published work.

6.5.4 Second Stage: Semi-structured Interviews

Running in parallel with quantitative data collection and analysis, qualitative data were required in the study to clarify and illustrate the meaning of the survey findings. Easterby-Smith et al. (2002: 85) argue that 'the most fundamental of all qualitative methods is that of in-depth interviewing'. Burgess (1982: 107) summarizes the importance of the interviews as 'the opportunity for the researcher to probe deeply to uncover new clues, open up new dimensions of a problem and to secure vivid, accurate inclusive accounts that are based on personal experience'. Thus, qualitative interviews were employed in the research for further investigations.

Because an unstructured interview is non-directive or open, it is more likely to produce too many assumptions that lead to poor data, which are difficult to interpret (Easterby-Smith et al. 2002). Easterby-Smith et al. (2002: 87) recommend using semi-structured interviews when 'it is necessary to understand the constructs that the interviewee uses as a basis for her opinions and beliefs about a particular matter or situation; the step by step logic of a situation is not clear; the subject matter is highly confidential or commercially sensitive; and there are issues about which the interviewee may be reluctant to be truthful other than confidentially in a one-to-one situation'. As a result, semi-structured interviews, in which 'researchers orient themselves according to an interview guide, but one that gives plenty of freedom of movement in the formulation of questions, follow-up strategies and sequencing' (Flick et al. 2004: 204), were applied in this research so as to exemplify the survey findings and explore underlying motives in a way that the questionnaire could not. It also tended to cover some sensitive HR issues that the questionnaire could not cover.

<u>Interview guide (Appendix IV)</u>

Due to the problems associated with conducting interviews, such as being very time consuming and expensive, Hussy and Hussey (1997) suggest using a short questionnaire as a more appropriate approach. Thus, an interview guide, containing an outline of topics to be covered, and a sequence of carefully worded questions were used in the study. The guide was grouped into sections similar to those in the survey so that interviewees felt the structure of the guide was easy and comfortable to follow. Since the factual questions had already been asked in the questionnaire, the interview questions were more concerned with probing the current situation of HRM in SMEs with particular interest in the influence of institutions and traditional culture on HRM practices in the researched companies.

For instance, Part I was about the impact of economic reform and WTO accession on SMEs. Part II emphasized the historical development of people management, the role of personal contacts during the resourcing process, the content of training programmes and the details of the procedure, the use of incentive schemes in the reward system, and labour-management relations in the company., Part III looked at the role of 'guanxi' as one of key factors deeply rooted in Chinese society and in today's business operations in China particularly.

Conducting interviews

The researcher attempted to arrange in-depth semi-structured interviews with representatives of 114 companies. However, due to the cost consideration and time limit, the researcher decided to ask the sample companies that were located in Nanjing, Jiangsu province for permission for further access. Among those companies, only 13 companies agreed to participate in the second stage of the research. In the end, 43 semi-structured in-depth interviews were conducted on a one-to-one, face-to-face basis between February and April 2006. Overall, each interview lasted on average about 90 minutes. Taking notes instead of tape-recording was adopted as a more manageable process. This was also largely due to the concern that the presence of a tape-recorder might inhibit the respondents from providing open answers. Additionally, in order to ensure relatively full accounts of the interviews, detailed notes were written up very soon after the interaction. Therefore, the detailed notes could give the researcher an opportunity to use verbatim quotes to supplement the argument of the research at a later stage by recalling with some precision the words used by respondents.

The problems

In addition to being very time-consuming and expensive, there was the problem with the interviews of the effect the interviewer had on the process, such as class or sex bias. As Rosenthal (1966) argues, male and female researchers may obtain very different data from their subjects. During the interviews, the researcher found that male subjects tended to be friendlier and behave more cooperatively and warmly than did female subjects. Further, the interviewees might have had certain expectations about the interview and so have given what they considered to be a 'correct' or 'acceptable' response. Although these problems can be overcome by increasing the depth of the interview (Lee 1993), Hussy and Hussy (1997) point out that the potential bias from both the interviewer and interviewees is difficult to predict or measure. As a result, these bias might distort the data and hence the research findings (Hussy and Hussy 1997).

6.6 Data Analysis

As Blaxter et al. (2001) argue, the distinction between the quantitative approach (i.e. numbers) and the qualitative approach (i.e. words) has a major influence on how data are analyzed. Hussey and Hussey (1997) also point out that the extent to which an analysis is structured will depend on the extent to which the collection of the data is structured. Since both qualitative and quantitative data were collected in the current research (see Table 6.7), both quantitative and qualitative data analysis techniques were employed in the study.

Table 6.7 Qualitative and Quantitative Data in the Current Research

Qualitative	Quantitative
• Copies of company documents (i.e. company handbook, general managerial regulations, HR working process, employee training schedule); • The notes in the research diary; • The interview guide (open-ended questions); • Maps	• Questionnaire; • Computer-based database; • Charts; • Tables or diagrams; • Maps

6.6.1 The Quantitative Data Analysis

In general, there are four levels in a quantitative data analysis: descriptive statistics, inferential statistics, simple interrelationship and multivariate analysis (see Table 6.8). Since the survey sample was non-probability, some techniques were limited in the statistical data analysis in the current research. For example, the study was able to use Standard Deviation (SD) to measure location, dispersion or change, but not Chi-square to test the differences among the results. Spearman's rho or Kendall's Tau (Non-Parametric) coefficient rather than Pearson's Correlation Coefficient were more suitable for evaluating the association between two variables. Although one of the purposes of the analysis was to seek an explanation and understanding of the phenomena, additionally, it is important to acknowledge that any statistical relationship between two variables might be a matter of chance, or due to the effect of some third variable. Therefore, as Blaxter et al. (2001) point out, the question of causality should be taken into account when carrying out a quantitative analysis.

Table 6.8 Levels of Statistic Analysis

Levels	Data Forms
Descriptive statistics	Variable frequencies (percentage or ratios), average (mean or median), ranges (SD)
Inferential statistics	Assessing the significance of the data and results (i.e. Chi-square, Student t-test)
Simple interrelationship	Cross-tabulation or correlation between two variables (i.e. Spearman's rho or Kendall's Tau coefficient)
Multivariate analysis	Studying the linkages between more than two variables (i.e. multiple regression)

Thus, by using SPSS, the focus in the analysis of the quantitative data of the current study was on descriptive statistics and simple interrelationships between variables.

6.6.2 The Qualitative Data Analysis

Few studies describe the methods adopted to analyse qualitative data sufficiently well to provide a comprehensive guide (Saunders et al. 1997, Bryman 2001, Easterby-Smith et al. 2002). Hussey and Hussey (1997) point out that the main challenges when attempting to analyse qualitative data are how to reduce the data, give them structure and use them in a form other than extended text, both in the analysis itself and later when presenting the findings. Easterby-Smith et al. (2002) also argue that at least a sample needs to be illustrated so that the reader can follow the same path and draw their own independent conclusions if they wish. Since despite the different ways to interpret either quantitative or qualitative data the aim of the data analysis of the interview results was the same, namely, to seek for significant statements, and compare what was said in different interviews,.

Apart from an intensive and repeated reading of individual interview transcripts, using tables and graphs to present the interview results clearly, computer-assisted analysis of qualitative data had also been considered by the researcher (i.e. NVIVO). However, the sample was not big enough (43 interviews) to use the computer programme efficiently. Conversely, a manual analysis was considered appropriate taking into account time consumption. In addition, the reliability of computer analysis has been questioned by a number of researchers (Agar 1991, Seidel and Kelle 1995, Flick et al. 2004), since a single word can be explained and identified in different ways under different conversational circumstances. Therefore, counting the frequency with which a word is used during interviews cannot provide sufficient evidence to support arguments. Further, the use of Chinese script made use of the analysis programme difficult, as the primary language applied in most computer software was English. Due to the complexity of HRM in the organisation, the sample size and the obstacles in using computer analysis in this particular research, the researcher chose to use a manual analysis so as to bring richer and more in-depth discussions, and hence, present a detailed overall picture of people management in SMEs.

6.7 Validity and Reliability

Hussey and Hussy (1997:173) mention that 'validity is concerned with the extent to which the research findings accurately represent what is happening in the situation; in other words, whether the data collected is a true picture of what is being studied'. Remenyi et al. (1998: 289) claim that reliability is 'the degree to which observations or measures are consistent or stable'. Reliability implies that similar results will be obtained by researchers on different occasions (Easterby-Smith et al. 1994) and the concern is therefore with how replicable the research study is (Remenyi et al. 1998: 288).

Since the criteria for evaluating validity and reliability were developed for a positivist research design, some researchers argue that the criteria, such as internal validity, external validity, reliability and objectivity, are inappropriate and alternative constructs should be used in non-positivist research (Remenyi et al. 1998, Marshall and Rossman 1995, Collins and Young 1988). Thus, in non-positivist research, validity is concerned with 'whether the researcher has gained full access to knowledge and meanings of respondents' (Remenyi et al. 1998:115), while reliability is to ensure 'the research methods used become transparent and the parameters regarding the research questions, setting, assumptions and theoretical frameworks are open to scrutiny' (Remenyi et al. 1998:116).

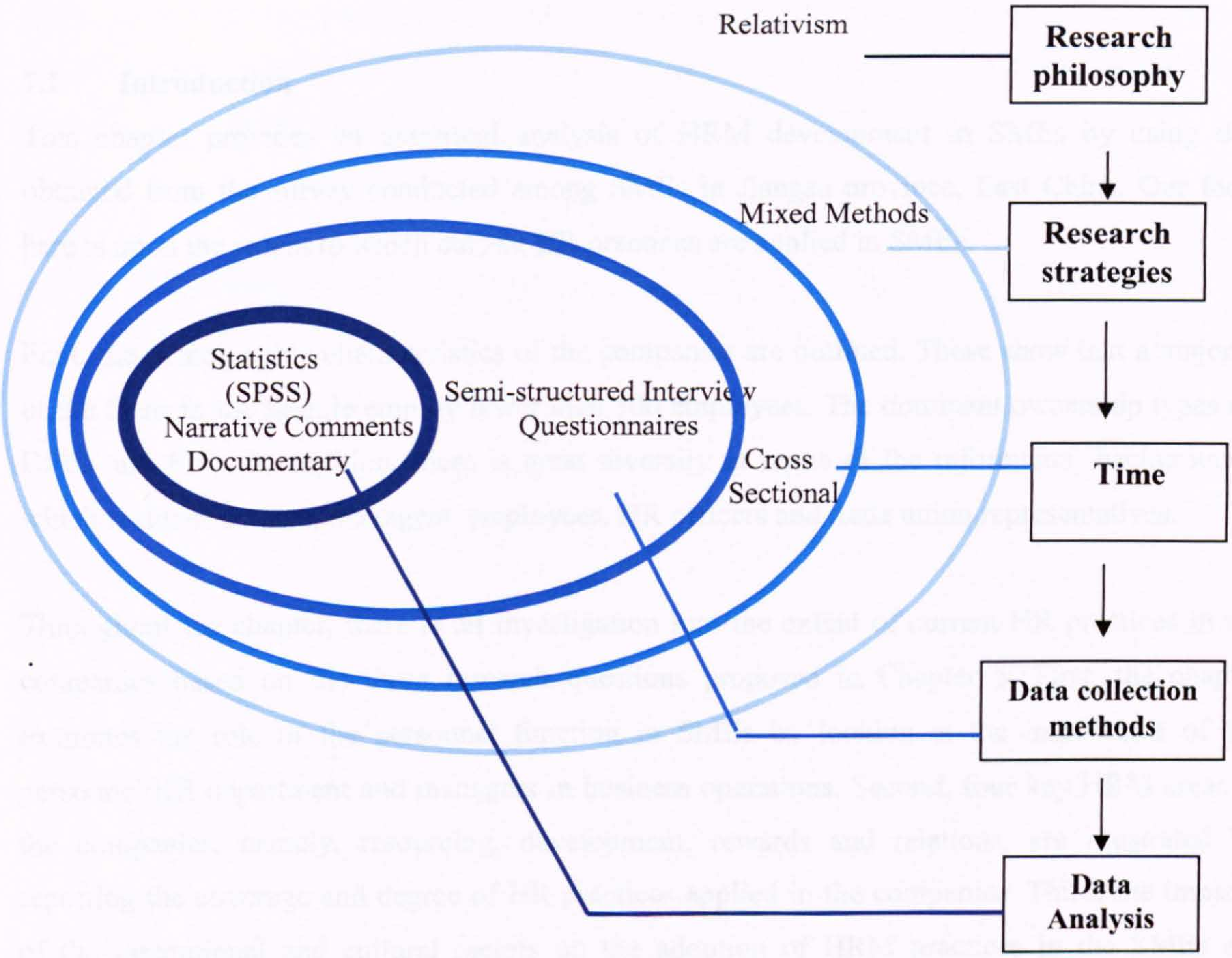
With regard to the current research, the researcher triangulated the study by drawing upon multiple evidence-collection methods (i.e. survey, personal interview, literature review) and using multiple informants and cases so as to demonstrate a 'good fit' between theory and reality. By using personal contacts and networks, moreover, a good quality access to knowledge was secured. Additionally, interview transcripts were fed back to respondents for verification to ensure that they reflected their understanding of the phenomenon. Further, the research evidence was collected in an easily retrievable form and a log cataloging research design decisions and justifications for these was kept so that others were able to investigate it. Thus, the researcher is confident that validity and reliability for the current study have been secured.

6.8 Conclusions

To summarize, as Blaxter et al. (2001) argue, the various paradigms, strategies, and methods do not map simply on to each other. Documents, interviews and questionnaires were used as part of the research strategy and approaches identified, though the way in which they were used and analyzed varied. In other words, the paradigms, strategies, and methods represent dimensions of the research process. Alternative approaches from the different dimensions combined to become the appropriate research design to study the particular set of research questions. Therefore, the design of the research strategy in this research resulted in the following process (see Figure 6.2).

More importantly, this chapter also explained both reasons for selecting the methodology that was chosen. It addressed the issue that a research study of people management in SMEs needs to employ both a quantitative and a qualitative mode. By using the interaction of statistics with the more narrative comments, using the systematic statistical data to create foundations and the anecdotal data to provide rich description or to explain the hard data, the research questions were explored from different approaches. Therefore, explanations, answers, new insights or knowledge might emerge when data from various sources were combined.

Figure 6.2 Research Process and Design



CHAPTER SEVEN

Survey Data: Some Descriptive Findings

7.1 Introduction

This chapter provides an empirical analysis of HRM development in SMEs by using data obtained from the survey conducted among SMEs in Jiangsu province, East China. Our focus here is upon the extent to which current HR practices are applied in SMEs.

First, the demographic characteristics of the companies are outlined. These show that a majority of the firms in the sample employ fewer than 300 employees. The dominant ownership types are DPEs and FIEs. In addition, there is great diversity in terms of the informants' backgrounds, which includes owners, managers, employees, HR officers and trade union representatives.

Throughout the chapter, there is an investigation into the extent of current HR practices in the companies based on the three research questions proposed in Chapter 5. First, the chapter examines the role of the personnel function in SMEs by looking at the importance of the personnel/HR department and managers in business operations. Second, four key HRM areas in the companies, namely, resourcing, development, rewards and relations, are illustrated by reporting the coverage and degree of HR practices applied in the companies. Third, the impacts of the institutional and cultural factors on the adoption of HRM practices in the SMEs are exemplified by calculating Spearman's correlations. Although the findings show a trend that people management in SMEs is moving towards the Western concept of HRM, overall, HRM practices in the researched SMEs appear to be piecemeal and short-term oriented, and the transferring process is affected by the distinctive national cultural and institutional factors.

7.2 Descriptive Statistics

7.2.1 Company Background

Descriptive statistics relating to the industrial groupings of the SMEs appear in Table 7.1. The survey sample was divided into five sub-groups according to employment size. Some 83.3 per cent (95) had fewer than 300 employees. Moreover, services were the dominant sector (53.5 per cent, 61 companies) regardless of firm size. In contrast to the small portion of COEs (only 2.6 per cent, 3 companies), other companies were DPEs (39.5 per cent, 45 companies), SOEs (31.6 per cent, 36 companies) and FIEs (25.4 per cent, 29 companies). It should be mentioned that among SOEs, a relatively large number of sample companies (20 companies) had been transformed into limited liability corporations or share-holding corporations since the second half of the 1990s, under the guidance of the government policy of reforming the SOEs.

Table 7.1 Industrial Groupings of SMEs in the Survey

GROUPINGS	Number of the Firms	Percentage of the Sample
Employment Size		
< 50	34	29.8
50-100	18	15.8
101-150	18	15.8
151-300	25	21.9
301-500	19	16.7
Total	114	100
Sector		
service	61	53.5
manufacturing	36	31.6
others	14	12.3
non-profit	3	2.6
Total	114	100
Type of Ownership		
DPE	45	39.5
SOE	36	31.6
FIE	29	25.4
COE	3	2.6
Not known	1	0.9
Total	114	100

Looking back at Chapter 2, the sectors, the company size, and the pattern of ownership structure in the sample are consistent with the current situation of SMEs in China. Moreover, 95 out of the 114 researched companies had fewer than 300 employees. Further, a large number of FIEs in the sample (72.4 per cent, 21 companies) were in the manufacturing sector, which accorded with the overall picture of current FDI in China. For instance, 70 per cent of the total foreign invested projects (30,386 units) were carried out and USD 109,735.76 million (71.5 per cent of the total investment) were invested in the manufacturing sector in 2004 (China Statistical Yearbook 2004). Thus, the findings from this study could be considered to not only represent a fairly good sample for the purpose of the current study but also provide empirical evidence of the current HRM practices in SMEs.

The statistics (Table 7.2) also show that the average age of employees was about 31 years old. More than 70 per cent of the employees had long-term labour contracts (over 1 year) with their company. Most companies were set up after 1992 (mean firm age = 13.36 years). On average, firms with 151-300 employees were the oldest companies, with the majority being more than 18 years old. In contrast to larger firms (mean firm age =17.5 years, sd =16 years), the indicated that smaller firms (<=150 employees) were more likely to be younger (mean firm age =10 years, sd =7 years).

Table 7.2 Company Information of SMEs in the Survey

BACKGROUND	% of Total Employees with Long-term Contracts	Average Age of Employees	Company Age
Mean	72.23	31.73	13.36
Std. Deviation	30.65	4.85	12.30
Minimum	0.00	19	2
Maximum	100.00	47	70
Number of Firms	113	113	114
Not Known	1	1	0
Total	114	114	114

7.2.2 Informant Characteristics

The average age, tenure and time in current positions for the survey informants are reported in Table 7.3. It shows that, on average, informants were in their late 30s and had worked for the current organisation for more than seven years. In addition, Table 7.4 illustrates that less than half were directors (41.2 per cent). The remainder was composed of HR managers (17.5 per cent), line managers (16.7 per cent), and employees (18.4 per cent). More than 80 per cent held a managerial position within the company. Male informants comprised just over 50 per cent (57 per cent). Further, the HR occupation was divided equally between male and female employees, while top managerial positions were mostly occupied by males (see Figure 7.1). Most informants had earned either a degree from a professional school or a bachelor's degree from a university (97 and 85.1 per cent respectively).

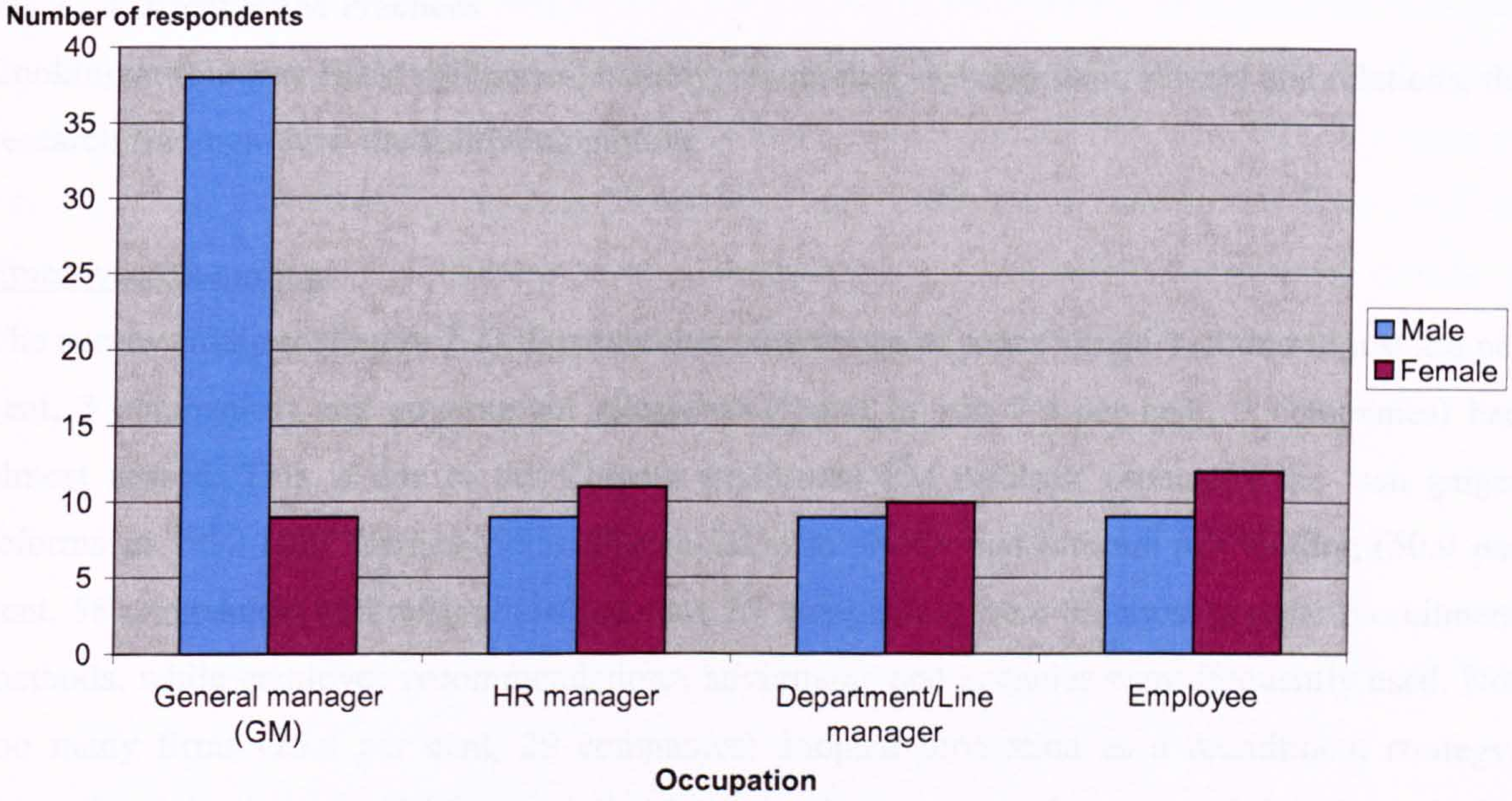
Table 7.3 Informants Background

BACKGROUND	Minimum	Maximum	Mean	Std. Deviation
Age	23	56	37.91	7.870
Tenure for the current organisation (months)	4	348	87.48	65.725
Months in Current Position	4	240	63.57	47.562

Table 7.4 Groupings of 114 Informants in the Survey

GROUPINGS	Number of the Firms	Percentage of the Sample
Gender		
female	45	39.5
male	65	57.0
Total	110	96.5
Not known	4	3.5
Total	114	100.0
Education Background		
junior high school	2	1.8
senior high school	11	9.6
professional school	3	2.6
professional college	46	40.4
University bachelor	39	34.2
University master	9	7.9
Total	110	96.5
Not known	4	3.5
Total	114	100.0
Job Title		
General manager	47	41.2
HR manager/officer	20	17.5
Department/ Line manager	19	16.7
Employee	21	18.4
Total	107	93.9
Not known	7	6.1
Total	114	100.0

Figure 7.1 Gender Breakdowns for 114 Informants in the Survey



7.3 Human Resource Management

7.3.1 The Role of the HR/Personnel Function

Although 61.4 per cent of the companies had a personnel or HR department, Table 7.5 shows that the top three functions of the personnel or HR department were recruitment (79.6 per cent, 90 companies), training and development (66.4 per cent, 75 companies) and labour relations (64.6 per cent, 73 companies). Collective bargaining, career planning and top management involvement were the least common functions (10.6 per cent, 23 per cent and 27.4 per cent respectively).

Table 7.5 HR Function in SMEs in the Survey

HR FUNCTION	Number of the Firms	Percentage of the Sample
Recruitment	90	79.6
Training and development	75	66.4
Labour relation	73	64.6
Compensation	65	57.5
Performance appraisal	61	54.0
Safety and health	59	52.2
Selection	49	43.4
Top management involvement	31	27.4
Career planning	26	23.0
Collective bargaining	12	10.6

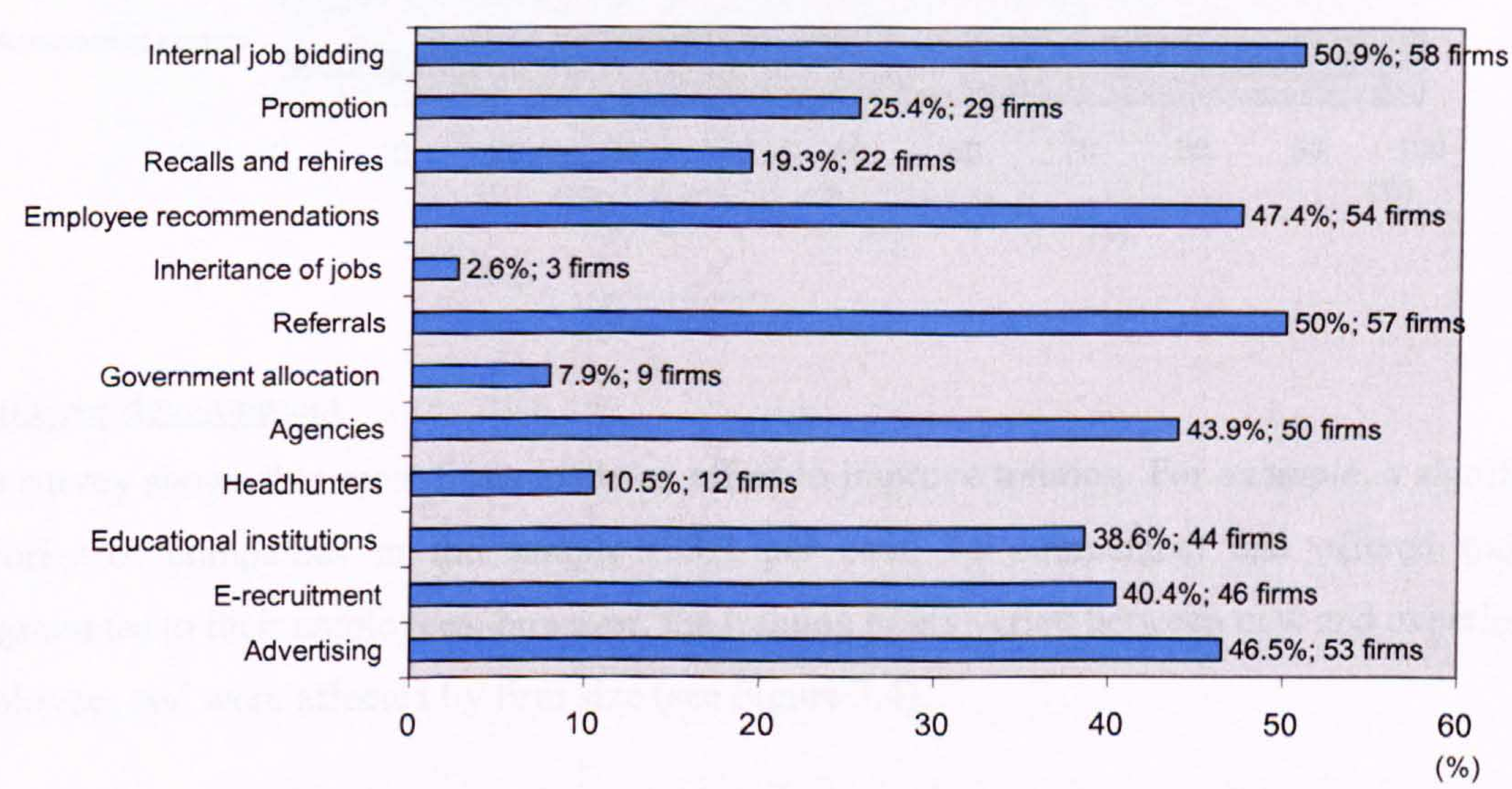
7.3.2 Current HRM Practices

Looking at four key HRM categories, namely, resourcing, development, reward and relations, the research findings show the following picture.

<u>Employee resourcing</u>

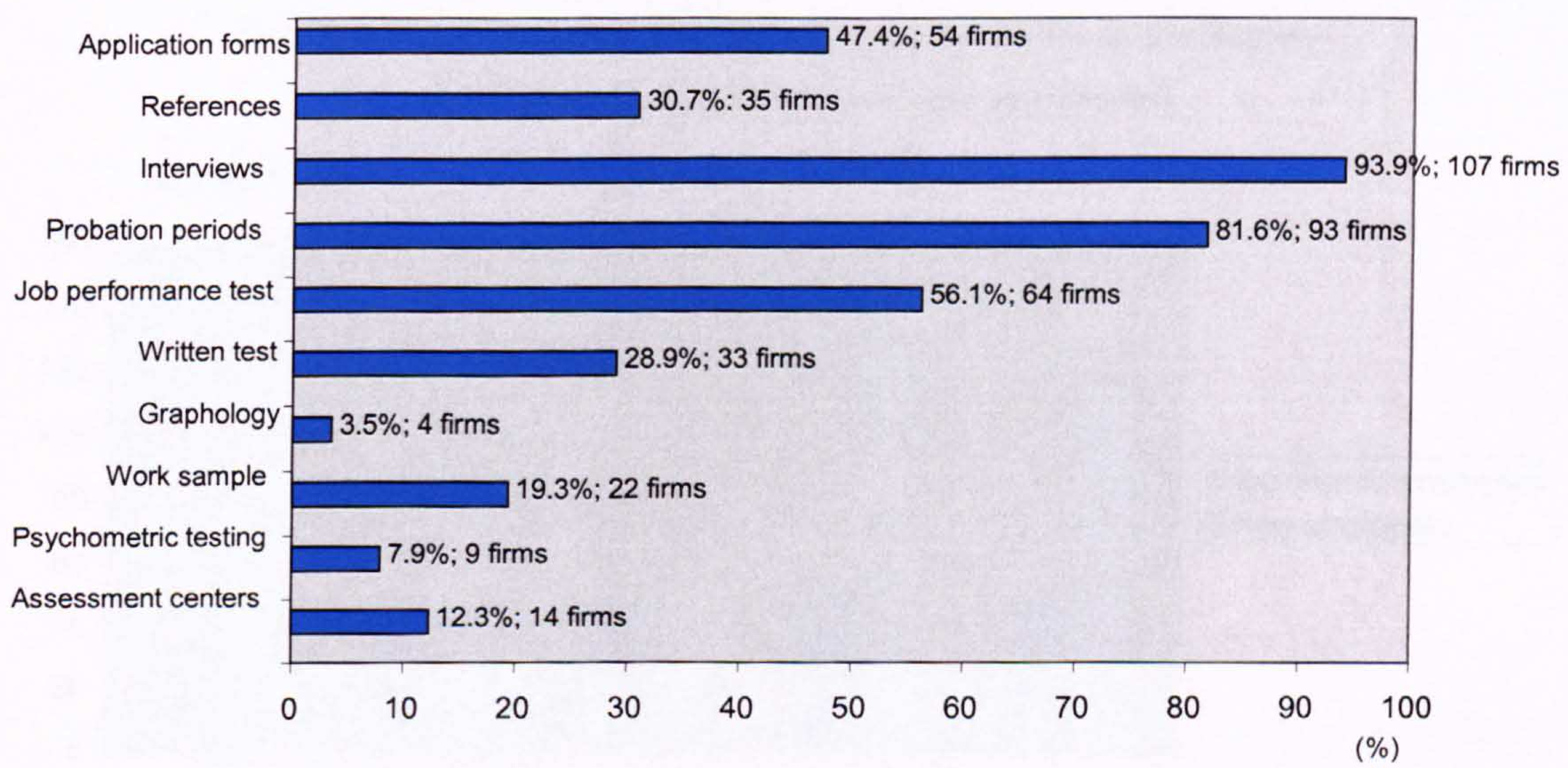
The survey findings (Figure 7.2) illustrate that inheritance of jobs ('dingti') (found in just 2.6 per cent, 3 companies) and government allocation (found in just 7.9 per cent, 9 companies) had almost ceased. This is due to the Chinese traditional PM reforms, especially the 'san gaige' reforms in 1992 (see Warner 1995). Figure 7.2 also shows that internal job bidding (50.9 per cent, 58 companies) and referral (50 per cent, 57 companies) were the most popular recruitment methods, while employee recommendations, advertising and agencies were frequently used. Not too many firms (25.4 per cent, 29 companies) adopted promotion as a recruitment strategy. Educational institutions (38.6 per cent, 44 companies) were used as one of the channels for looking for the right candidates, but it was not a crucial method of recruitment.

Figure 7.2 Recruitment Methods Used by SMEs in the Survey



During the selection process, the survey reports that both interviews (93.9 per cent, 107 companies) and probationary periods (81.6 per cent, 93 companies) were the most preferred approaches to selecting candidates, whereas geography (3.5 per cent, 4 companies), psychometric testing (7.9 per cent, 9 companies) and assessment centres (12.3 per cent, 14 companies) were the least used methods (see Figure 7.3). In addition, it is worth noting that written tests (28.9 per cent, 33 companies) were less popular than were interviews as a selection tool in the researched SMEs.

Figure 7.3 Selection Methods Used by SMEs in the Survey

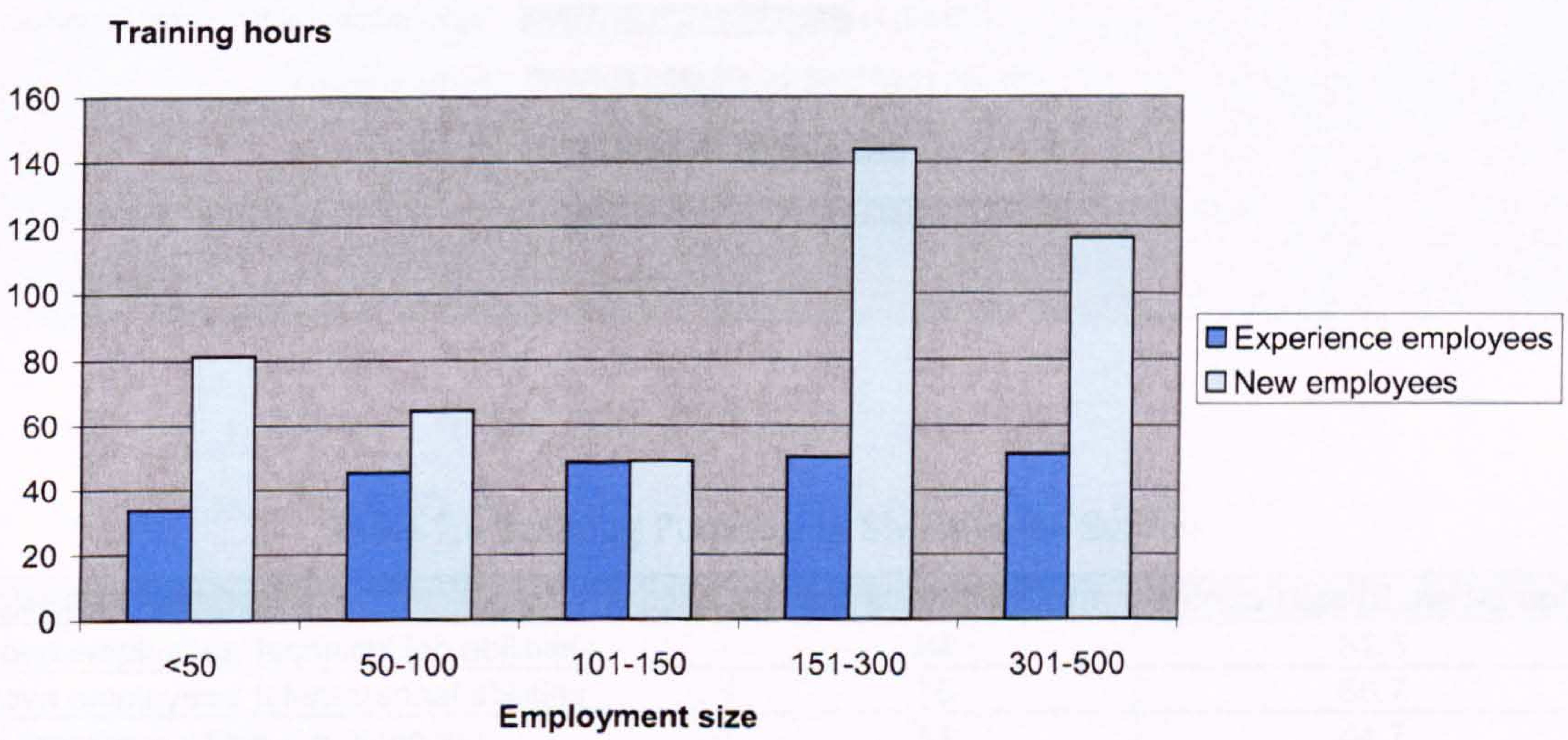


Employee development

The survey shows that most firms made an effort to improve training. For example, a significant majority of companies in the sample (83.3 per cent, 95 companies) had offered training programmes to their employees; however, the training hours varied between new and experienced employees and were affected by firm size (see Figure 7.4).

Figure 7.4 shows that, on average, all the companies spend longer hours on training new employees than in training experienced employees, except those firms with 101-150 employees. In addition, the average number of hours spent on training new employees in larger firms was two to three times longer than in smaller firms, whereas the number of hours spent on training experienced employees was similar among all companies. Figure 7.4 also suggests that the firm started to increase its training hours for new employees extensively when company size exceeded 150 employees. Indeed, the average number of hours spent in larger companies was almost three times greater than in the smaller ones. Further, it is interesting to note that there was no big difference between the smallest firms (<50 employees) and the largest firms (>300 employees) in terms of the proportion of training hours divided between new employees and experienced employees.

Figure 7.4 Average Training Hours Spent by SMEs in the Survey
(Experienced employees vs. New employees)



Looking at the training methods adopted by the companies (see Figure 7.5), the survey reports that, on the one hand, off-site training programmes were always dominated by short course training (69.3 per cent, 79 companies), while long-term study (22.8 per cent, 26 companies) and overseas training (15.8 per cent, 18 companies) rarely appeared on the list. On the other hand, the most common ways used in on-site training were lectures, workshops, and presentations (65.8 per cent, 75 companies). Apprenticeships (44.7 per cent, 51 companies) and job rotation (45.6 per cent, 52 companies) were also applied regularly in the companies.

Figure 7.5 Training Methods Adopted by SMEs in the Survey

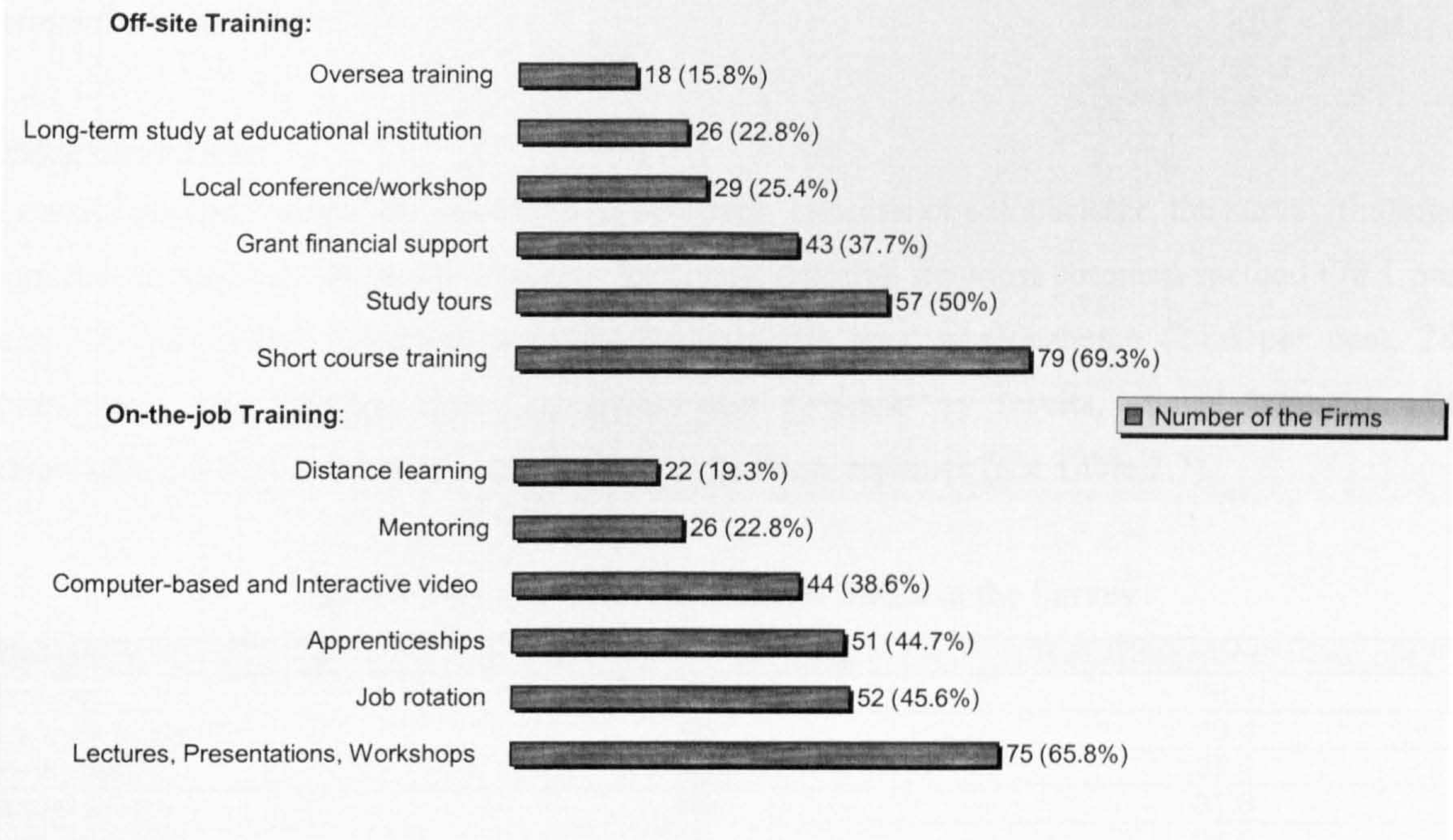


Table 7.6 Training Purposes in SMEs in the Survey

TRAINING PURPOSE	Number of the Firms	Percentage of the Sample
Improve employees' technical job abilities	94	82.5
Improve employees' interpersonal abilities	76	66.7
Build teamwork within the company	51	44.7
Provide employees with the skills for different jobs	44	38.6
Help employees understand the business	41	36.0
Teach employees about the company's values	39	34.2
Prepare employees for future job assignments	39	34.2
Remedy employees' past poor performance	35	30.7
Provide a reward to employees	23	20.2
Provide training for new employees	21	18.4

Further, as Bjorkman and Lu (1999) argue, attitudes towards technical training have been gradually changing in Chinese JVEs. The survey findings verify such arguments by showing that the main purpose of training in the 114 SMEs was to improve employees' technical job ability

(82.5 per cent, 94 companies), followed by courses designed to improve interpersonal abilities (66.7 per cent, 76 companies), and to build a teamwork environment (44.7 per cent, 51 companies) (see Table 7.6).

Employee rewards

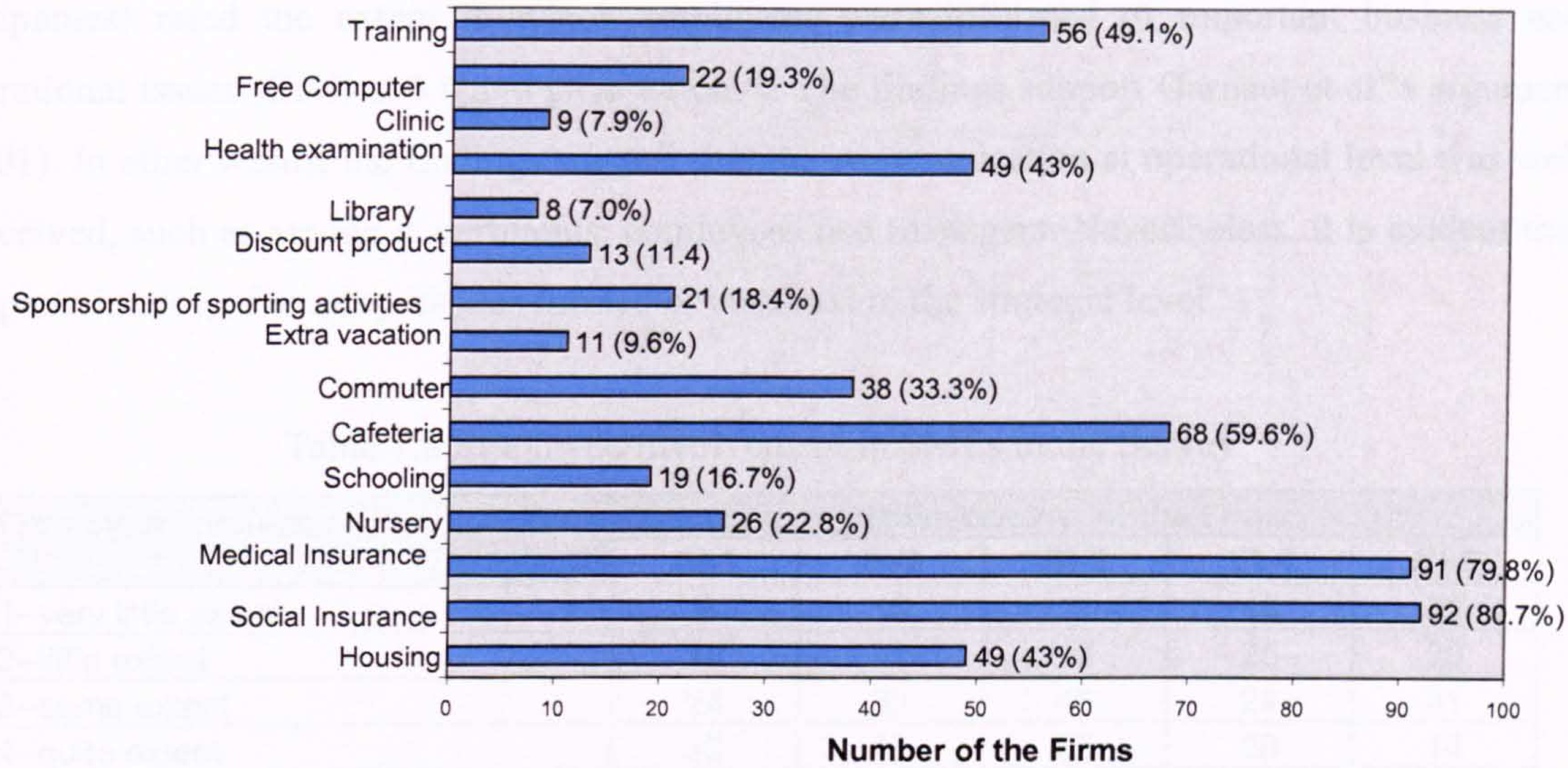
A reward package comprises payments and benefits. In terms of pay package, the survey findings from the researched companies illustrate that merit pay was the most common method (78.1 per cent, 89 companies), whereas profit-sharing was the least used scheme (24.6 per cent, 28 companies). The findings also demonstrate that payment by results, annual bonuses, and commissions were exercised to varying degrees by the companies (see Table 7.7).

Table 7.7 Pay Schemes Applied by SMEs in the Survey

SCHEMES	Number of the Firms	Percentage of the Sample
Merit pay	89	78.1
Payment by result	46	40.4
Commissions	40	35.1
Annual bonus	36	31.6
Profit-sharing	28	24.6

While a performance-oriented reward system had gradually become established in the researched SMEs, evidence showed that employees' benefits were minimal in companies (see Figure 7.6). For example, although the survey shows that social insurance (80.7 per cent, 92 companies) and medical insurance (79.8 per cent, 91 companies) were two major components among 14 benefits listed in the questionnaire, it reports that few companies offered free schooling or nursery provision (16.7 per cent, 19 companies and 22.8 per cent, 26 companies respectively). Also, there was very little sponsorship of sporting activities (applied in 18.4 per cent, 21 out of 114 companies), libraries (7 per cent, 8 companies) or medical clinics (7.9 per cent, 9 companies).

Figure 7.6 Benefits Applied by SMEs in the Survey



Employee relations

As discussed earlier (see Chapter 4), in the case of employee relations in the researched companies, the researcher looked at the extent to which employees were allowed and able to contribute and influence organisational decisions from several dimensions, including information sharing among departments (EI-1), the exchange of information between supervisors and subordinates (EI-2), and the levels of participation in decisions (i.e. employee autonomy (EI-3), the sharing of important business issues (EI-4), and the involvement in the decision-making process (EI-5)). A five-point Likert scale was adopted in the study. Informants were asked to indicate, on a scale from 1 to 5, the extent to which their companies utilized each of the HRM practices. The scale was anchored at either extreme with '5= to a great extent' or '1= to a little extent'.

Table 7.8 shows that very few interviewees (just 7 per cent, 8 companies) felt that their companies had problems regarding the sharing of information among departments (EI-1). In addition, most (78.9 per cent, 90 companies) had rated 3 ('to some extent') or above on the exchange of information between supervisors and subordinates (EI-2). However, only 5.3 per cent (6 companies) rated 5 ('to a great extent') with regard to the application of employee involvement in the decision-making process within the company (EI-5). Less than 17 per cent (19 companies) rated the extent to which employees were informed of important business and operational issues (EI-4) at 5 ('to a great extent'). The findings support Garnaut et al.'s argument (2001). In other words, the findings suggest that the communication at operational level was well conceived, such as among departments, employees and managers. Nevertheless, it is evident that the participation of employees was limited or confined to the strategic level.

Table 7.8 Employee Involvement in SMEs in the Survey

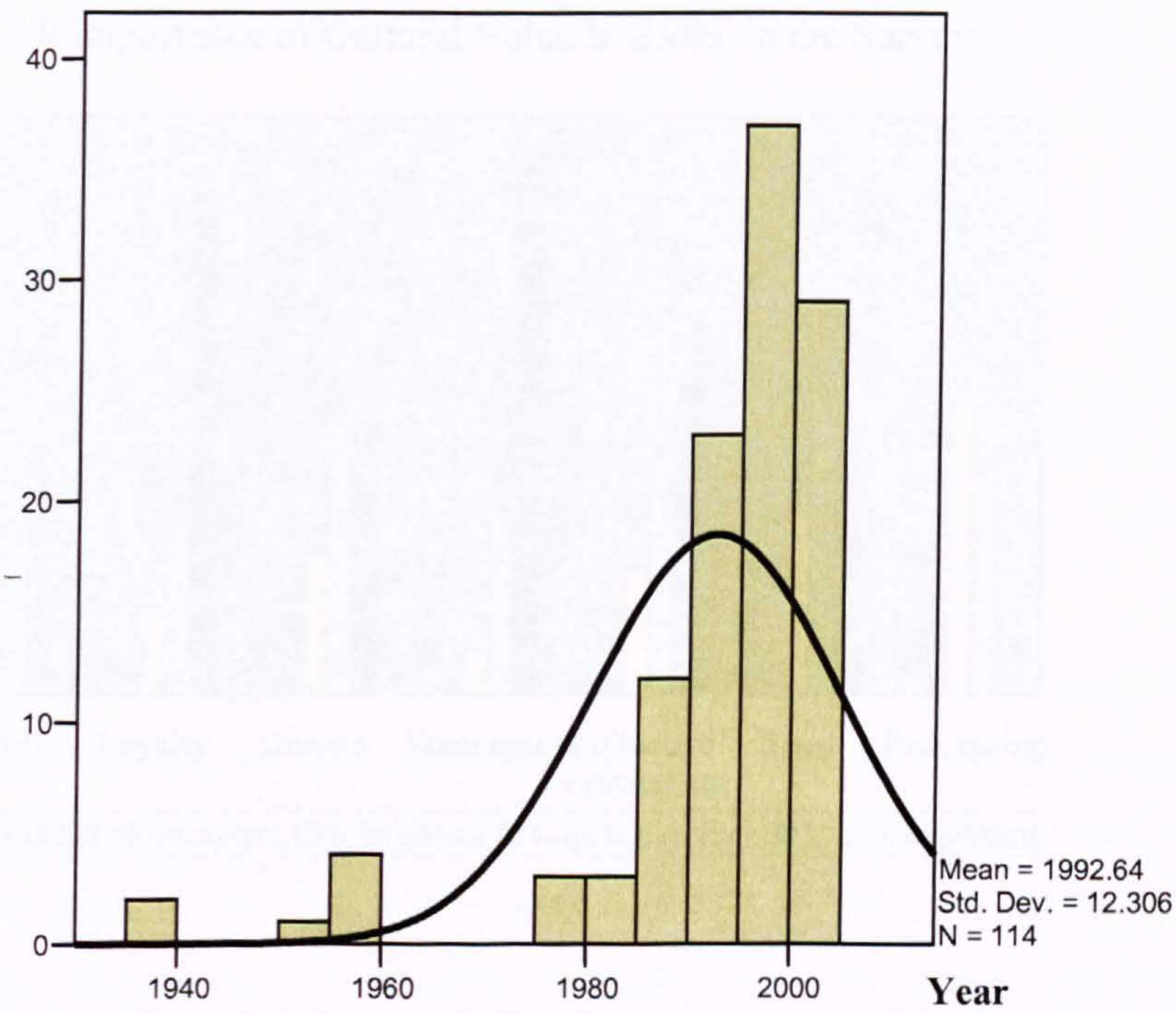
Employee Involvement	Total Number of the Firms				
	EI-1	EI-2	EI-3	EI-4	EI-5
1--very little extent	8	10	11	16	31
2--little extent	18	11	18	25	29
3--some extent	24	33	46	24	31
4--quite extent	39	38	25	28	14
5--great extent	22	19	12	19	6
Not Known	3	3	2	2	3
Total	114	114	114	114	114

7.4 Contextual Factors on HRM Practices

7.4.1 Institutional Environment

As Bach (2005) highlights, it is impossible to make sense of the transition of personnel practice without reference to the political and economic context. The current research findings support this argument. For example, it is interesting to note that most companies (73 per cent, 82 companies) were established after 1992 (mean firm age = 13.36 years) (see Figure 7.7). Moreover, the majority of the survey sample, 90 per cent of the smaller companies (< 300 employees), were set up after 1983. Indeed, more than half of those companies started their business in the 1990s. Hence, the dramatic increase of the total number of SMEs in the sample during 1990s reflected a change of government policies and regulations towards SMEs (see Chapter 4). On the one hand, the findings demonstrate that the role of SMEs in the national economy was becoming more significant as reforms progressed. On the other hand, it suggested that the political and economic context had some effect on the development of SMEs.

Figure 7.7 Year of Establishment of SMEs in the Survey

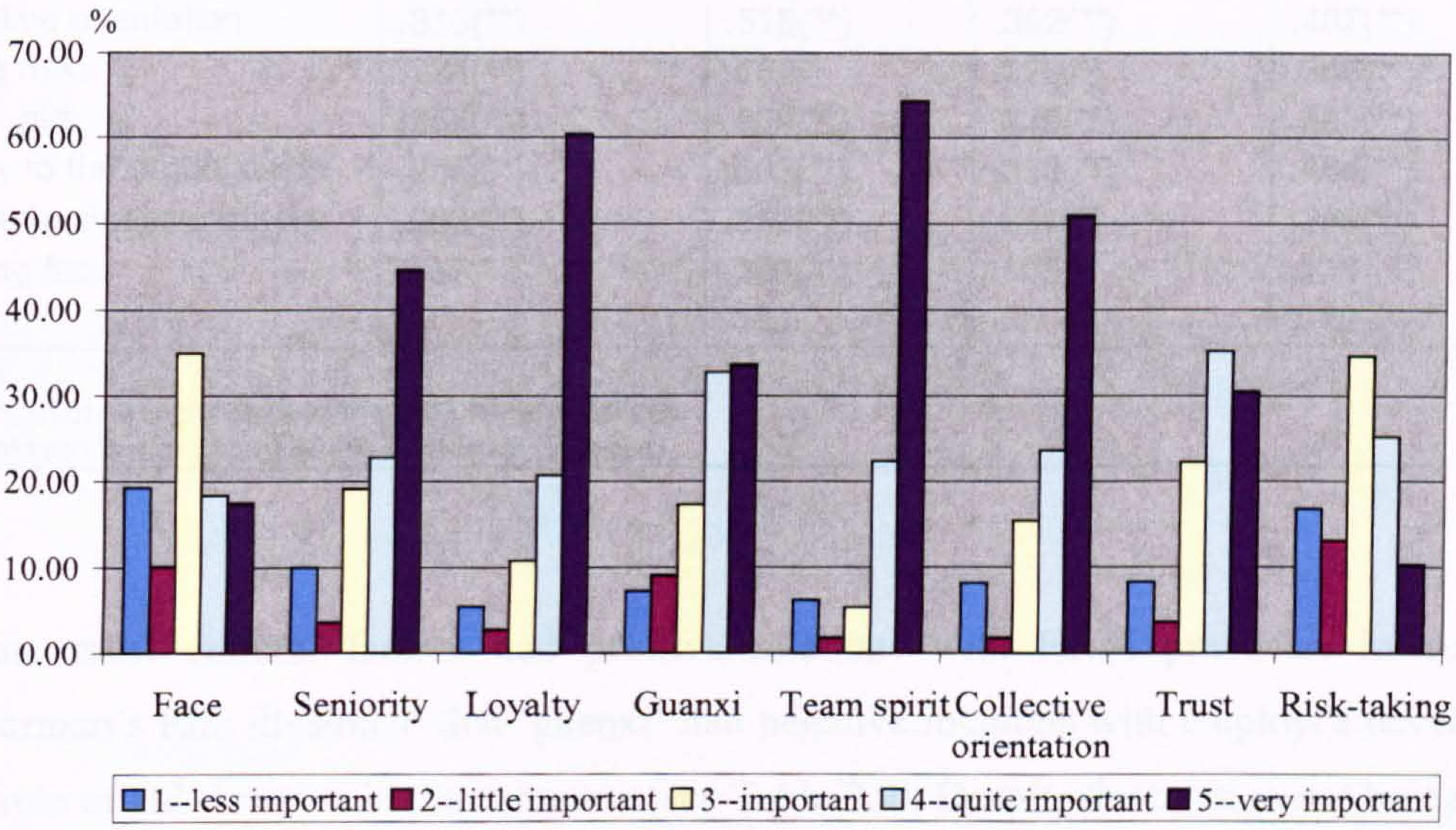


7.4.2 National Culture

The measures of cultural value were adopted from Schlevogt (2001). The scale consisted of a list of eight items with a five-point Likert scale for respondents to rate (where 5=significant important; and 1=significant unimportant) (see Appendices II: Questionnaire).

Looking at the findings regarding the importance of cultural values in the SMEs (Figure 7.8), a majority of the respondents admitted that 'having respect for seniority' (65 per cent, 74 respondents), 'team spirit' (85.1 per cent, 97 respondents), 'guanxi' (64.1 per cent, 73 respondents), 'collective orientation' (71.9 per cent, 82 respondents), 'trust in business partners' (62.2 per cent, 71 respondents), and 'loyalty to the company' (79 per cent, 90 respondents) were important factors (rated as '5' or '4') in their daily business transactions. Compared to a high percentage of informants, conversely, fewer people considered that 'keeping face' (35.7 per cent, 39 respondents) and 'taking risks' (33.3 per cent, 38 respondents) were crucial in today's business environment.

Figure 7.8 Importance of Cultural Value in SMEs in the Survey



Since the survey sample was not randomly selected, Spearman's correlation coefficient was applied as a non-parametric statistic to test the relation between HRM and cultural values. As discussed earlier, one of the major limitations of correlation analysis is that the indication of the direction of causation is not sufficient as proof of a causal relationship (see Chapter 6). Therefore, the following investigation focuses on the significance of the relationship between HRM practices and cultural values rather than explaining the directions between the variables.

By calculating Spearman correlations among the role of the HR/personnel function, four key HRM aspects and eight cultural factors (see Chapter 6), Table 7.9 confirms that cultural values had a great influence on the extent to which HRM practices were applied in the SMEs, though the degree of the impact varied among different practices and cultural factors. Except for 'guanxi', for example, the correlations were positive themselves: therefore, the research suggested a trend that the cultural influence became more significant, as the degree of conducting HRM practices increased.

Table 7.9 Correlations between HRM and Chinese Cultural Values

CULTURAL VALUES	The Role of HR Function	Resourcing	Development	Rewards	Relations
Having respect for seniority	.324(**)	.532(**)	.336(**)	.503(**)	.422(**)
Collective orientation	.318(**)	.518(**)	.392(**)	.403(**)	.289(**)
Taking risks	.274(**)	.162	.229(*)	.366(**)	.270(**)
Team spirit	.258(**)	.509(**)	.335(**)	.388(**)	.314(**)
Loyalty to the organisation	.256(**)	.603(**)	.333(**)	.464(**)	.420(**)
Trust in business partners	.252(**)	.265(**)	.231(*)	.286(**)	.257(**)
Keeping face	.167	.286(**)	.106	.174	.096
'Guanxi'	-.048	.100	-.124	.172	.053

Notes:
** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).

While most cultural factors had positive relations with HRM practices, interestingly, the Spearman's Rho illustrated that 'guanxi' had negative relations with employee development and the role of HR function in the company (see Table 7.9). Despite the relation not being significant, it indicated that the degree of these two HRM aspects exercised in the SMEs tended to increase as the importance of 'guanxi' declined. Moreover, Table 7.9 demonstrates that 'guanxi' and keeping face had the least impact on HRM practices compared to other cultural factors, although the effects of 'guanxi' and the preservation of face on HRM practices were addressed by a number of researchers in the HRM study in China (see Chapter 4).

7.4.3 Enterprise Dynamics

Four key HRM practices, namely, resourcing, development, rewards, relations and the role of HR function, were measured by 21 items in the questionnaire (see Appendices II). Using a five-point Likert scale, the respondents were asked to rate, on a scale from 1 to 5, the extent to which the statements described the way they thought HRM practices were conducted in the company. The scale showed that '1= to a little extent', and '5 = to a great extent'. The ratings of HRM practices based on the given statements among the SMEs were calculated by SPSS.

Similar to the study of cultural value in HRM in the SMEs, again, the Spearman correlation coefficient was applied to test the relations between firm characteristics (i.e. ownership form and firm size) and the current situation of HRM in the researched companies. The results showed that ownership form and firm size had significant impacts on the role of the HR function in the SMEs (see Table 7.10). Even if the correlations between HRM practices and firm characteristics were not significant, however, the positive relations implied that HRM in FIEs and/or larger firms had been more strategically involved in business operations than had those in PEs and/or smaller enterprises.

Table 7.10 Correlations between Ownership Form, Firm Size and HRM

Firm Characteristics	The Role of HR Function	Resourcing	Development	Rewards	Relations
Total Number of Employees	.208(*)	.158	.174	.130	.034
Ownership Forms	.272(**)	-.008	.172	.086	.128
Note: ** Correlation is significant at the 0.01 level (2-tailed).					

7.5 Conclusions

Based on the survey data, this chapter looked at people management in SMEs at two levels. The role of the HR function in the organisation was analysed. Little evidence has been found to support the idea of a key role being played by the personnel manager or HR department in senior management decision-making. In addition, four key HRM areas were discussed and examined. For employee resourcing, the techniques applied in the companies' recruitment and selection practices are still simple. For employee development, opportunities for training are limited. For employee rewards, employee benefits are minimal. For employee relations, it was concluded that the participation of employees is confined to the strategic level. Furthermore, looking at the influence of contextual factors on HRM in the researched companies, the findings illustrate that institutional environment, traditional cultural values and firm characteristics, especially in relation to ownership form and firm size, affect the applicability of HRM profoundly.

Nevertheless, some encouragement can be drawn. For instance, in contrast to the situation in the pre-reform period (see Chapter 4), the survey findings demonstrate that there is a more diverse labour source provided by the market and the techniques employed in selection processes by SMEs are becoming more sophisticated. Most companies provided training to their employees and there was an emphasis on technical training. Also, there was an attempt to implement a performance-related reward strategy so as to attract and motivate highly qualified employees. Further, the survey findings imply that communication is well conceived at operational levels, such as among departments, employees and managers. Overall, the survey findings suggest that HRM in the researched SMEs is still premature, though the development of HRM is promising.

CHAPTER EIGHT
Qualitative Findings from Interview Results

8.1 Introduction

Chapter 7 presents an overall picture of HRM development in the researched SMEs, Jiangsu province, East China. However, Bratton and Gold (1999) argues that the results from questionnaires, the research instrument in this study, cannot provide an accurate picture of the subtleties and intricacies of the way work is structured and actually performed, or of the dynamics of the employment relationship. In order to give a clearer picture of people management in SMEs, therefore, this chapter provides further investigations on HRM development based on 43 in-depth semi-structured interviews with 13 SMEs.

First, the survey findings are verified by probing the interview results. The problems and conflicts raised during the transition of HRM are addressed, and a complex and sometimes contradictory picture of people management in the SMEs is exhibited. Then, contextual factors that affect the HRM take-up in the interviewed companies are discussed from three key perspectives, namely, the politico-economic, the socio-cultural, and the enterprise level. As Siu (2001) argues, the success or failure of Chinese SMEs can be understood and explained only by acknowledging the effects of the independent variables, such as Chinese cultural and economic institutions, as well as the politico-economic structures and environments within which they operate. Therefore, the chapter looks at why certain HR practices are favoured over others in the companies by investigating the influences of institutional and cultural factors. It explains that traditional culture and institutions have a great impact on HR practices in the companies. In accounting for this impact, it emphasises the critical importance of economic reforms, the characteristics of SMEs, and the fundamental significance of traditional Chinese culture in shaping and constraining HRM in SMEs. In the light of the foregoing analysis, finally, the chapter argues that people management in SMEs retains its 'Chinese characteristics', even if some major changes are demonstrated in the current study.

8.2 Background Information

8.2.1 Company Portfolio

Table 8.1 Portfolio of the Interviewed Companies

COMPANY	Size	Sector (Type of Business)	Ownership	Locus of HR decision
C1	<500	Construction (Real estate development)	DPE	Owner-manager and General manager
C2	<300	Manufacturing (Food processing)	DPE	Owner-manager and HR Manager
C3	<200	Manufacturing (Sports floor)	DPE	Owner-manager
C4	<200	Service (Advertising)	DPE	Owner-manager
C5	<500	Service (Hotel and Catering)	SOE	General Manager and HR Manager
C6	<300	Manufacturing and Retail services (Garments)	DPE	Owner-manager
C7	181	Service (Travel Agent)	SOE/ State-holding	General Manager
C8	202	Manufacturing (Rubber)	SOE/ Corporations	General Manager
C9	200	Manufacturing (Automatic Control System)	FIE/ JVE	General Manager
C10	300	Manufacturing and Retail services (Jewellery)	COE/ Employee share-holding	General Manager
C11	60	Manufacturing (Safety Alarm System)	SOE/ State-holding	General Manager
C12	300	Service (Retail Banking)	FIE/ FOE	General Manager
C13	128	Utilities	FIE/ JVE	General Manager and HR Manager

Table 8.2 Groupings of the Interviewed Companies

GROUPINGS	Number of the Firms	Percentage of the Sample
Employment Size		
< 50	0	0
50-100	1	7.7
101-150	1	7.7
151-300	9	69.22
301-500	2	15.38
Total	13	100
Sector		
service	4	30.8
manufacturing	7	53.8
others	2	15.4
non-profit	0	0
Total	13	100
Type of Ownership		
DPE	5	38.5
SOE	4	30.8
FIE	3	23.0
COE	1	7.7
Total	13	100

Tables 8.1 and 8.2 present a general picture of the 13 interviewed companies. It shows that the company size, the sectors and the type of ownership structure among the 13 interviewed companies were consistent with the survey sample (see Table 7.1 in Chapter 7). Therefore, the researcher was confident that the interview results could provide further evidence of current HR practices in SMEs. In order to have a better understanding of the HRM development, the background and market context of the interviewed companies are also illustrated as follows.

> C1: The company has evolved from a simple restaurant business to a multi-products corporation in the last ten years. The key strategy of the company is to 'grab the opportunities and invent new ideas'. By taking ideas from academics and gaining support from local government, the total assets of the company in 2005 were more than RMB10 billion.
>
> C2: The business was founded in 1995 by the present owner as a share holding company among family members. At the beginning, several small workshops were set up and the land was rented from local peasants. In 1999, as the business expanded, the company moved into the economic development zone. In the meantime, formal recruitment was started, and employees included ex-managerial staffs from SOEs and university graduates. Now, the total sales for the year 2005 were RMB 2 billion, and the total assets are more than RMB 1 billion. Although the owner is keen on modern management concepts and practices, the features of the family business still predominate (i.e. key positions are occupied by family members and shareholders are mostly family members).
>
> C3: The business is run by one owner-manager who established the company in 1996. As a laid-off manager from an SOE, the owner manager expressed appreciation of the reforms, though he described himself as being forced into the situation (i.e. to start his own business). At the beginning, the business had only four full-time employees. It was a typical small family business, for example, the husband was in charge of the workshop while the wife looked after the shop. At present, the registered assets are about RMB 518 million. However, the owner showed no interest in increasing the profits of the business because of tax implications and some government regulations.

C4: The company was set up by several friends as shareholders. Now, it has grown to having nearly 200 employees. All employees, including managers, have only one-year contracts with the company. As it is a new industry and a long-term project, few enterprises pay attention to it, even in the advanced regions, such as Yangzi Delta. Reform does have a direct impact on the company, but only from a macro point of view (i.e. industry structure adjustment).

C5: One of the oldest companies in the sample, C5 transferred from a government service facility (a state-house) to an SOE, acting as an independent business that was responsible for its own profits and losses during the enterprise reforms in the 1980s. In 2006, under state regulations, the hotel experienced its ownership reform, but it reported that the reform was jeopardized by discontent and resistance from the employees in the workplace. Despite the obstacles mentioned by the interviewees, the top manager confirmed that the transfer was an inevitable trend in today's environment.

C6: The company was founded in 1991 as a JVE that produced the parts of an automatic door system. However, the business was becoming unsuccessful due to a high production cost, different market focus, and turbulent political environment. In 1994, the company shifted its focus to the garment business. Through a special connection with local government, later on, a plant was bought at a very favourable price. In 2000, the owner set up her own brand. Now, she owns more than 40 retail shops and on average, the total sales per year are around RMB 4 billion. The aim of the company was to enter the Australian market in the year 2006/7.

C7: The company was established in 1996 when mergers and acquisitions among large SOEs were encouraged by the state. As a sub-division of one of the largest state conglomerates in the province, initially, senior managers of the company were appointed internally. Nevertheless, the company struggled as the market competition increased, especially after WTO accession. One of the major reasons, top management concluded, was a lack of expertise. In 2002, the HQ decided to outsource highly skilled professionals who would take over the management of the business. In order to attract and retain the right personnel, the ownership was transformed from an SOE to a shareholding company, with a 55 per cent share held by the state company and 45 per cent divided among top managers within the company.

C8: This is a corporation between one of the largest SOEs (60 per cent of total share) and a large PE (40 per cent of total share). Its senior manager claimed that it was an 'innovation' in its field in terms of the ownership reform. The initiative was to solve the problems of overstaffing and inefficiency of the large SOE. In the meantime, the PE gained potential access to a mature product market, new technology, and highly qualified employees. As the top manager from the SOE stated,

> 'Being in a large SOE, most employees don't want to leave because of good social welfare benefits. However, advanced technologies have reduced the total number of employees we need in the production line. Compared to our international opponents, we are overmanned and inefficient. Therefore, we have to cut down the labour cost so as to compete successfully. But dismissal or redundancy is not the best solution for enhancing performance since it reduces a 'harmonious society'. In order to alleviate problems of overstaffing and yet keep in line with the new campaign, a JVE became an obvious option to us.'

C9: This company was founded in 1990 with 100 percent investment from Japan. Because of the restrictions on its business operation as an FOE in the domestic market, the company changed to a JVE in name in 1994. After the foreign investor withdrew, the company remained as a JVE but companies from H.K. (75 per cent of total share) and Shanghai became investors instead. One of the major HR issues at present is that employees' mobility between the regions is restricted by state policies, such as the regulations on social benefits (i.e. life insurance cannot be transferred between provinces). Consequently, the limitation on employees' mobility becomes one of the key determinants of the organisational structure of the company.

C10: The history of this company can be traced back to 1896. As a part of the 'socialist transformation', it transferred from a handicraft workshop to a cooperative team in the early 1950s. In 1958, during the 'Great Leap Forward', the craftsmen set up a COE to respond to the call of 'daban gongye' (industrialisation) from the state. During the reforms of the 1990s, the factory restored its old brand, went through organisational reconstruction, and became a jewellery company, with several factories and the biggest jewellery retail store in the city. In 2002, under state regulations, it transformed from a COE to an employee shareholding limited company. However, the interview results revealed that the reform created a number of problems, and resentments were still strong in the workplace.

C11: As one of a number of small enterprises that were under the management of the Chinese Academy of Science, the company was founded by seven employees in 1992, as the State advocated transferring the achievements in scientific research into productivity so as to make up for the deficiency in scientific research funding. Following the policy of 'zhuada fangxiao' (grasping the large and letting go of the small) during ownership reform, the majority of SMEs in the Academy were left to their own devices in the marketplace, where they were privatized, merged or allowed to go bankrupt. Consequently, the company transferred into a state-holding limited company with 55% of the shares held by the state and 45% of the shares held by employees.

C12: Established as an investment project by the local government in 1987, the company became the first company in the industry to be made public in the stock market in 1988. Facing more intensive competition in the domestic market after WTO accession, in 2004, the local government opened bidding to invite strategic investors into the business so as to enhance its organisational performance. An American company bought 17.8 per cent of the shares and became the biggest shareholder of the company. As a result, the ownership has shifted from an SOE to an FOE.

C13: The company is one of 16 small sized power stations that are under the management of a corporation founded in 1996. The focus of the business is on environmentallyfriendly and recyclable electrical energy. With the total investment of RMB 7 billion, the plant started working fully in 2005. There are two major issues in the business operation. One is related to the nature of the industry, as the electric business is mostly controlled by the State. The other is the double management between the corporation and the division, which creates conflicts and limits the efficiency and effectiveness of management.

8.2.2 Interviewee Profile

Figure 8.1, and Tables 8.3 and 8.4 provide the demographic information about the 43 interviewees in these companies. Similar to the survey findings, Figure 8.1 shows that the HR occupation was composed of equal numbers of male and female employees among the companies, while there was a big disparity between genders at both top managerial and employee level. Table 8.3 also indicates that, on average, HR managers and practitioners were younger than department and line managers. Furthermore, in order to give a balanced point of view of people management in SMEs, the information was drawn from different levels of the organisation, which included senior managers, other department/line managers, HR practitioners and employees (see Table 8.4).

Figure 8.1 Gender Breakdowns for Interviewees

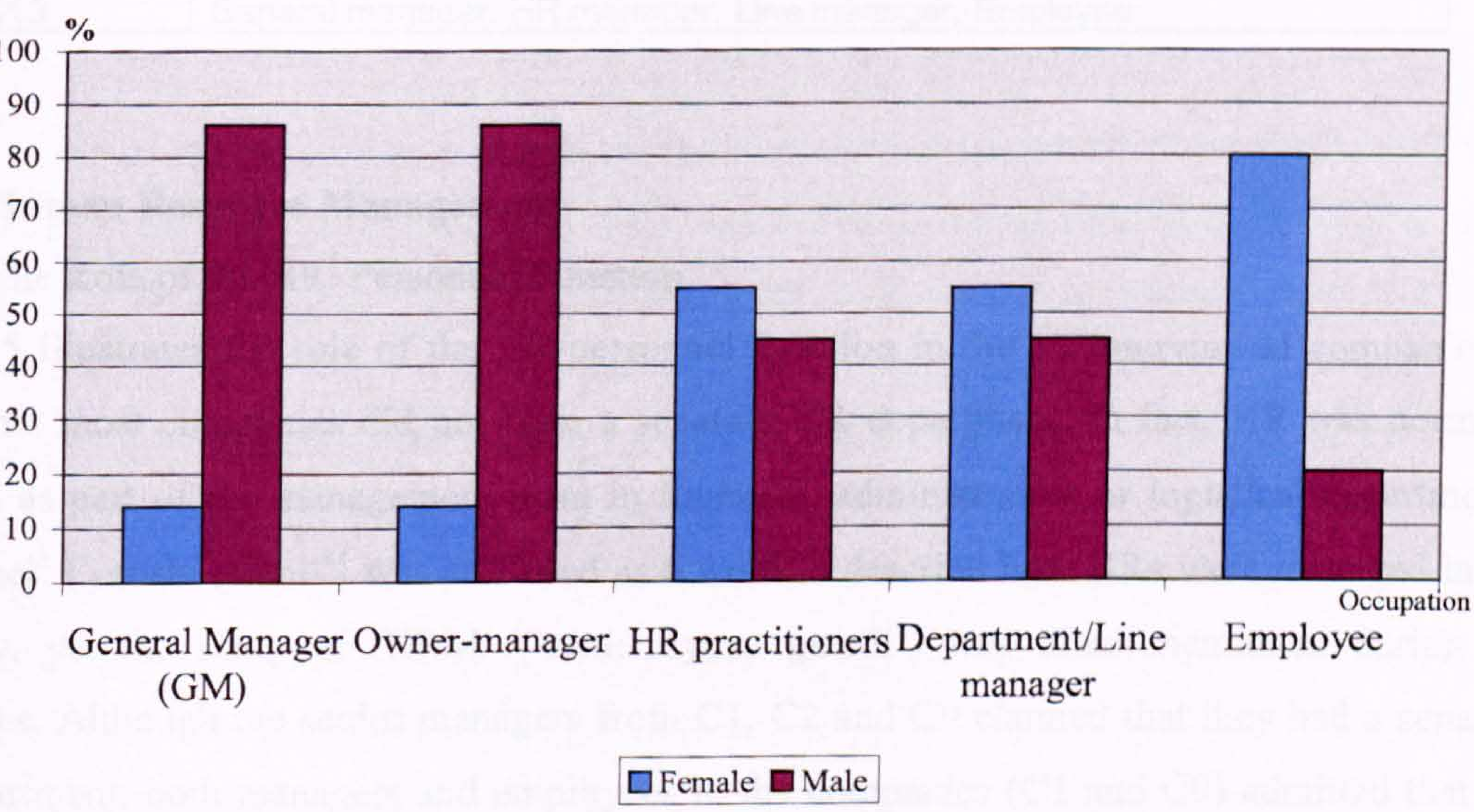


Table 8.3 Demographic Information on Interviewees

JOB TITLE	Interviewees		Female		Male		Average Age	Age Range
	Number	Percentage	No.	%	No.	%		
General manager	7	16.3	1	4.8	6	27.3	49	38-65
Owner-manager	4	9.3	1	4.8	3	13.6	43	38-53
HR manager/officer	11	25.6	6	28.6	5	22.7	36	25-51
Department/Line manager	11	25.6	6	28.6	5	22.7	42	31-56
Employee	10	23.2	7	33.2	3	13.6	32	23-45
Total	43	100	21	100	22	100	40	23-65

Table 8.4 Interviewee Profiles

COMPANY	Interviewees
C1	General manager, HR manager, Department manager (Legal), Employee
C2	Owner-manager, HR manager, Line manager, Employee
C3	Owner-manager, HR manager, Line manager, Employee
C4	Owner-manager, HR manager, Department manager (Strategy)
C5	General manager, HR manager, Line manager, Employee
C6	Owner-manager, HR manager, Line manager, Employee
C7	General manager, HR manager, Department manager (Finance), Employee
C8	General Manager
C9	HR manager, Department manager (Finance), Employee
C10	General manager, HR manager, Employee
C11	Department manager (Finance/HR)
C12	General manager, HR officer, Line manager, Employee
C13	General manager, HR manager, Line manager, Employee

8.3 Human Resource Management

8.3.1 The Role of the HR/ Personnel Function

Table 8.5 illustrates the role of the HR/personnel function in the 13 interviewed companies. It shows that most companies did not have a separate HR department. In fact, HR was normally included as part of the management team in financial, administrative or logistical departments. 'Personnel' ('renshi guanli') was still used as a word to describe how HRs were managed in the company, yet the slang of 'HRM' ('renli ziyuan guanli') was often mentioned during the interviews. Although the senior managers from C1, C2 and C9 claimed that they had a separate HR department, both managers and employees in the companies (C1 and C9) admitted that the HR department retained simple old-style structures rather than representing a true innovation. For instance, a line manager from C9 said that, in reality, the HR function was non-existent since the department did nothing except check employees' attendance and take care of their social welfare. In the construction company (C1), the HR manager also complained that:

> 'There are so many day-to-day, trivial matters that have to be done. But nothing is really related to how to stimulate and motivate employees so as to enhance employee commitment, and therefore to improve performance.'

Table 8.5 Role of the HR/Personnel Function in the Interviewed Companies

COMPANY	Do you have an HR/Personnel Department? (Alternative department in the company)	Role of Personnel Function (HRM practices)
C1	Yes	resourcing, development, rewards, involvement
C2	Yes	resourcing, development, rewards, involvement
C3	No (Admin Office)	payroll, legal regulations
C4	No (Personnel & Admin)	initial recruitment, policy training
C5	No (Admin & Personnel)	resourcing, development, rewards, involvement
C6	No (Admin & Personnel)	front-line employee recruitment, payroll, involvement
C7	No (Admin Office)	payroll, insurance
C8	No (Admin & Personnel)	payroll, training, filing
C9	Yes	recruitment, clock-in, training
C10	No (Personnel Dept)	payroll, contracts, insurance, filing
C11	No (Finance & Personnel)	payroll
C12	No (Logistic Dept)	payroll
C13	No (Personnel & Admin)	recruitment, performance appraisal

Table 8.5 also shows that personnel tasks in most interviewed companies were simple and basic. For example, personnel managers mostly dealt with payrolls, filing documents, recording clock-in and paying social benefits. The major responsibilities of personnel managers were to support other business departments by managing organisational issues and resolving conflicts in relations among employers, managers and employees. For example, the HR manager of an advertising company (C4) stated that,

> 'The importance of our department is to convey company policies and principles to employees so as to ensure no misunderstanding occurs. HR managers are crucial but not strategically important. We are providing a service for other departments. My role in the company is to be a good supporter and administrator.'

Moreover, conflicts and problems emerged while companies were adopting HRM practices. For example, the line manager from C3 explained the difficulties in implementing HRM practices from his point of view. He said that,

> 'We would like to make things (HR) work. However, there is a difference between the rules and the reality. In practice, we have to put the company's interests first. Therefore, we consider the company's situation and top management as priorities. The difference between the regulations on employees' manual and real practice has caused conflicts in the workplace. Overall, we can pursue the (HR) directions but to implement the practices on a daily basis is impossible.'

There were not only difficulties in implementing HRM practices but also there were inconsistencies with respect to an understanding of the role of the HR function among top management, HR managers and practitioners themselves, line managers and employees within the company. For instance, while the CEO and the personnel manager in C7 considered HR department as playing a strategic role in their firm, conversely the line manager described that,

> 'My understanding of the role of the HR department in our company is to pass messages, organize social activities, and deal with daily operational jobs. The personnel manager does attend top management meetings but everything is negotiable. He doesn't have any decision-making power. In the end, it is the general manager who makes the final decision and department managers who perform HR practices. For example, I am in charge of recruitment and training for my own department. Moreover, at the initial stage of recruitment, it is the communication department not HR that designs and puts out the advertisement for potential employees.'

Again, a female company worker from C7 stated that,

> 'There is no HR in our company at all. The personnel person is only taking care of social welfare, such as paying for our insurance. He is not involved in any kind of HR practice, such as recruitment, training, rewards, or involvement. Even the payroll, which is a common practice for traditional PA in China, is handled by the finance department. The personnel person only fills in the Excel form for database purposes.'

Notwithstanding the persistence of a traditional Chinese PA and the difficulties in practicing HRM in the companies, interview evidence suggested that the importance of the HR function had been acknowledged. For example, some senior managers claimed that the firm did separate the HR department from finance, administration or logistics by hiring qualified HR staff (in C3, C4, and C12) or had set up a new HR department (in C1, C2, and C9). Top managers were more sensitive to the importance of HRM issues than they had been in the past. A majority of owners and managers (i.e. in C2, C3, and C6) recognized that HRM practices might be able to help to improve commitment, business performance and competitive advantage in the long term. A need for highly qualified HR personnel was stated by all interviewees.

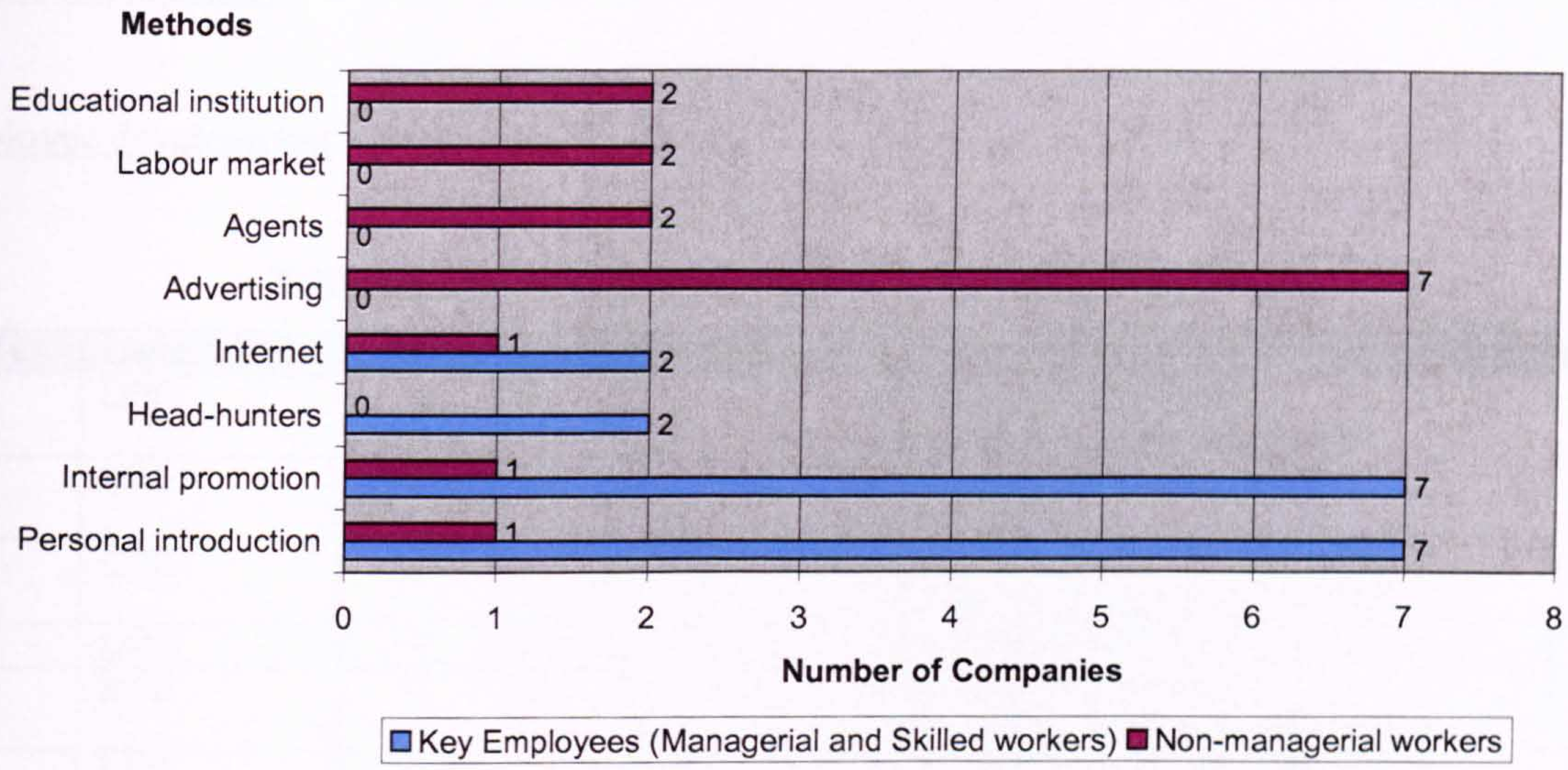
8.3.2 Current HRM Practices

Looking at four key HR practices, namely, resourcing, development, reward and relations, the research findings for the interviews illuminated the following issues.

<u>Employee resourcing</u>

Although the survey findings showed a diverse labour resource provided by the market (see Figure 7.2), Figure 8.2 illustrates that key employees in most interviewed SMEs, such as senior managers and skilled workers, were recruited through personal recommendations (7 out of 13 companies) or internal promotion (7 out of 13 companies). Most senior managers admitted that applicants who were introduced through personal connections were more reliable and trustworthy, with a better quality and stronger loyalty to the firm, hence the high figures in the recruitment section. For example, during one interview, the owner-manager claimed that all their employees needed a referee so as to guarantee proper behaviour and a positive working attitude in the company. As usual, the referee always had some kind of relationship with the company. By building up the tripartite relationship between the company, the referee and the employee, the company hoped that employees would have to consider their referees' interests before doing any harm to the firm, and therefore, company interests would be protected. Then, the findings also implied that personal relations were essential in employee resourcing in SMEs, especially in helping to build trust in business relations.

Figure 8.2 Recruitment Methods Adopted by the Interviewed Companies
(Key employees vs. Non-managerial workers)



With relation to the selection practice, the in-depth interviews revealed that most general managers attended interviews when recruiting key employees, at least, at the second interview. For general recruitment, the relevant departmental managers were involved, as well as the HR manager. It was reported that, at the initial stage, the HR manager was the person responsible for setting up the application form and arranging for initial contacts with applicants, although he/she did not make any final decisions. In other words, the HR manager was the organizer of the process and might give some comments in the early stages. Again, this finding supported the previous argument on the lack of involvement of the HR department/practitioners in decision-making processes in SMEs.

Further, the difficulties in finding highly qualified employees in the labour market were highlighted during the interviews. It was reported that the labour market was mainly used when hiring manual workers or cheap labour, especially in the manufacturing sector (i.e. in C2, C6, and C9), whereas advertising was highly recommended as the most useful method for general recruitment (7 companies, C1, C4, C6, C10, C11, C12, and C13) (see Figure 8.2). A number of interviewees, including senior managers, HR practitioners, line managers and employees (i.e. in

C3, C4, C5, C9, C10, and C12) made the criticism that the current labour market was not effective. The labour market was described as having a poor quality labour force, high cost, and a chaotic environment.

Employee development

Table 8.6 Training Practice in the Interviewed Companies

COMPANY	Ownership	Plan	Budget	Training Contents	Assessment
C1	DPE	x	x	Company policies and procedures, Legal regulations	x
C2	DPE	√	√	Company policies, Working procedures	√
C3	DPE	x	x	New product introduction, Legal regulations, Technique training	x
C4	DPE	√	x	Technique training	√
C5	SOE	√	√	Company policies and regulations, Technique training	√
C6	DPE	x	x	Company procedures, New production introduction, Technique training	√
C7	SOE/ State-holding	x	x	Industry regulations, Technique training	√
C8	SOE/ Corporations	x	√ (Industry standard)	Technique training	√
C9	FIE/ JVE	x	x	Company policies and regulations, New production introduction, Technique training	√
C10	COE	x	x	Industry regulations	√
C11	SOE/ State-holding	√	√ (State's regulation)	Technique training	√
C12	FIE	x	√ (Company policy)	Technique training	x
C13	FIE/ JVE	√	√ (Company policy)	Technique training	√

Note: 'x'- do not have the practice; '√' - have the practice

While the survey findings confirmed that most SMEs (83.3 per cent of 114 companies) provided training for their employees, the interviews revealed that training in SMEs was still at an initial stage and the extent of training was limited and piece-meal (see Table 8.6). For example, few interviewees claimed that the company had a training plan, budget, or a performance-related assessment. Training needs were evaluated informally, based mainly on personal perceptions and expectations. Some senior managers/HR managers also claimed that the companies had a training budget only because it was compulsory under industry standards, state regulations, or head office policies (i.e. in C8, C11, C12, and C13). Training was short and often 'on-the-job', and training content was commonly firm-specific, which included company polices and procedures, legal regulations, new product introduction and some basic techniques in the workplace (see Table 8.6). Most interviewees (including HR managers, line managers and employees) argued that assessment would be conducted after training but there was no following check-up and the assessment was not linked to employee performance.

Although the issue of technical training was also addressed by the interviews, the interviewees disclosed that the approach to staff morale education was weakened in the programme. For instance, both line managers and the employee in C12 stated their concerns about the neglect of morale education in the training programme, and indeed, they pointed out that the ignorance had side effects on employee commitment to the company. An absence of professional morale training is also considered by some interviewees (i.e. in C2, C5, and C12) to be a contributing factor to the lack of a feeling of responsibility among workers. This lack of responsibility led to casual accidents in the production line. As a result, some line managers (i.e. in C2 and C12) warned that those minor mistakes might cause extensive damage, especially regarding the brand image and the company's reputation in the long run.

Further, conflicts could arise during training practice. For example, there were dissenting voices among employees and managers who voiced their disapproval of 'time consuming' and 'bureaucratic' training evaluation, provision, and feedback procedures. One HR manager (in C13) said,

> 'I feel drained by the training since the training programmes (from HQ) are always rigid and mandatory without reference to the production plan. Therefore, it is difficult for employees and managers to focus on training while they are busy with production at the same time. In addition, the (training) contents are somehow overlapped and the (training) time always clashes with the actual work. Hence, the training is ineffective even if we have spent lots of time attending all different types.'

Employee rewards

Table 8.7 Pay Structure and Reward System of the Interviewed Companies

COMPANY	Pay Structure			Reward System		
	Basic salary	Bonuses	Allowances	Monetary	Promotion	Honours
C1	m+p+s	√	√	Pay rise, Travel, Housing allowance, Training	√	x
C2	m	√	x	Pay rise	√	x
C3	m+p	√	√	Pay rise, Travel	√	√
C4	m	√	x	Pay rise, Bonus, Shares of stock	√	x
C5	m+p	√	x	Monetary award	√	x
C6	m	√	x	Pay rise, Money award	√	√
C7	m+p+s	√	√	Profit-sharing, Travel, Car allowance, Holiday,	√	x
C8	m+p	√	x	Pay rise	√	√
C9	p	√	x	Pay rise	√	x
C10	p	√	x	Shares of Stock	x	√
C11	m+p+s	√	√	Bonus	√	x
C12	m+p+s	√	√	Monetary award	√	√
C13	p	√	x	Monetary award	√	√

Note:
1. m= 'minimum pay'; p= 'positional pay'; s= 'seniority pay'
2. 'x'- do not have the practice; '√' - have the practice

Table 8.7 shows the pay structure and reward system adopted by the companies. It demonstrates that the pay package consisted of a basic salary, a bonus and a range of allowances or subsidies, though the details varied from firm to firm. The table also revealed that some weight was still given to the job held (positional wage) (8 companies, C1, C3, C5, C7, C8, C9, C10, C11, C12, and C13) and the time worked (seniority wage) (4 companies, C1, C7, C11, and C12) when deciding the initial pay levels among employees. Moreover, Table 8.7 demonstrates that economic stimulation (i.e. monetary rewards), employee future development (i.e. promotion), and 'spirit inspiration' (i.e. honour) were the major incentive mechanisms deployed in the companies' reward system. Indeed, monetary reward (i.e. pay rise and bonus) remained the most important means among all the devices for retention. Further, the pay system designed by the companies showed a strong emphasis on responsibilities and performance at individual and/or group level. For example, the bank manager in C12 reported that one of their reward strategies was to amend the individual score by using the overall score of the group during the performance evaluation. Furthermore, workplace attitude and behaviour, such as respect for rules and discipline, orientation of quality and competence, and loyalty to the firm were underlined as part of the reward criteria (7 companies, C3, C4, C5, C6, C9, C12, and C13). As one HR officer (in C12) stated,

> 'The previous criteria of performance were merit, capability, attendance and discipline ('de', 'neng', 'qin', 'ji'). Now, a positive working attitude ('gongzuo zuofeng') is also included as one of key criteria for performance.'

In accordance with the survey findings, the interviews also illustrated that employees' benefits were minimal in the 13 companies. It is evident that some companies tried to lessen the costs of employee benefits to the bare minimum by meeting only the basic legislative requirements. For example, none of the interviewed companies provided a full range of social welfare (i.e. health, pension, unemployment and minimum living standard insurance) for their employees except those who were state involved companies (i.e. state-holding companies, SOEs). One manager from the legal department of C1 clarified that,

> 'There is no need for the company to pay the pensions of employees as long as nobody makes complaints. Moreover, the boss wants to maximize the profit by minimizing any expenses. Further, as most PEs grow from small family workshops, they have a limited understanding of the legal system and the regulations within a company are not sophisticated yet.'

Besides showing that companies overlooked legislative requirements even when they were applicable, the interview evidence showed that housing, training, and free computer use were accessible only to a small group of employees in some companies, such as senior managers or key staff. Most of the interviewed companies offered canteens and commuting largely because the company was located far away from the city centre, where there was no public transport facility. Thus, the evidence shows that employees in the 13 SMEs received very few benefits.

Further, it has been noted by the researcher that two major problems commonly occurred in the implementation of reward systems in the companies. First, the reward system in some companies did not improve employees' motivation; conversely, it actually led to resistance or resentment, a high turnover of key employees and anxieties between the individual/team and employer. One manager (from C7) described the negative consequences resulting from the reward system in her company:

> 'I think the reward system in our company is unreliable, unfair, and meaningless. We had two key employees leave last year. This is because they are unhappy with the reward system in the company. For example, the company decided that the total number of clients was the key criteria for reward at the beginning of the year. However, they (the company) changed the criteria for the second half of the year so as to avoid paying too much in bonuses to the employees. This upsets many people in the company and discourages employee commitment.'

The findings support Fang's argument (2005) that bonuses can become not only an important source of income to supplement the low wage level, but also a source of pressure for managers, and a source of tension since they produce earning differentials among different groups of workers.

Second, the evidence shows that, to some extent, the reward system might infringe employees' legal rights. For example, the deputy manager from a legal department (in C1) revealed the conflicts between pay confidentiality and the regulations in her company based on the Labour Law (1995). She said,

> 'According to the labour law (1995), the employment contract should include the length of the contract, work content, health and safety protection and working conditions, remuneration, discipline, conditions for termination of contract, and liability for violating the employment contract. However, the boss insists on vagueness with regard to the pay package. Therefore, the contract is left as incomplete. This incompleteness creates a number of problems at a later stage, especially in employee dismissal. Additionally, the effect of the reward system becomes minor since neither managers nor employees know the exact criteria for the reward.'

Hence, when the companies attempted to implement performance-related reward schemes, research findings demonstrated that the reward system in SMEs was becoming more sophisticated, but at the same time, insufficient, and with little impact on motivating the workforce, in retaining key employees, or in enhancing organisational performance.

Employee relations

While validating the lack of involvement at a strategic level in the earlier survey, the interviewees provided a more complex and pessimistic picture of employee engagement at the operational level amongst the thirteen companies (see Table 8.8). For example, the majority of the senior managers acknowledged that there was little interaction either among different departments (9 out of 13 companies) or between employees and managers (8 out of 13 companies), though information was exchanged regularly and freely among employees at a senior managerial level (see Table 8.8). Moreover, the information passed to mid-managers and employees was selective and mostly based on business needs (as in C6 and C7). For instance, the owner manager of C6 admitted that mid-managers obtained only information that was related to their departmental operation and employees were merely informed when the contents were performance-related and/or motivation-oriented. Further, one-way, downward communications were still the most common form of direct communication in most of the companies. For instance, the communication channels were largely limited to regular meetings, summaries and performance reports (see Table 8.9).

Table 8.8 Employee Involvement in the Interviewed Companies

COMPANY	**Information Exchange**	
	Department vs. Department	Department vs. Individuals
C1	x	-
C2	x	-
C3	√	+
C4	√	+
C5	x	-
C6	x	+
C7	x	+
C8	√	-
C9	x	-
C10	x	-
C11	√	+
C12	x	-
C13	x	-

Notes: 1) Dept vs. Dept: 'x' – not applicable; '√' – applicable;
2) Dept vs. Individual: '-' – one-way communication; '+' – two-way communication

Table 8.9 Communication Channels Used by the Interviewed Companies

CHANNELS	Number of the Firms	Percentage of the Sample
Weekly/Monthly meetings	10	77
Team briefings	6	46
Individual summary/report	4	31
Intranet	3	23
Company magazine/newspaper	2	15
Suggestion schemes	2	15
Informal conversation	2	15
Note board	1	8
Text message	1	8

In spite of a lower level of employee involvement and a hierarchical organisational structure among the companies, most interviewed owner-managers, managers and employees (32 interviewees, 74.4 per cent) showed their satisfaction with labour-management relations. Employee relations in most companies were claimed to be good, harmonious and cooperative. The working environment was pleasant and friendly. The growth of direct communication with the workforce, such as team briefings (6 companies) and meetings (10 companies) between senior managers and the workforce, was the most easily identifiable trend (see Table 8.9). The evidence shows that some companies (i.e. C2, C3, C4, and C6) acted as a 'carer' who was not only looking after employees in the workplace but was also somehow involved in their personal life. For example, some interviewees described their relationship with the owner managers as a 'brotherhood' or 'friendship'. A line manager from C3 stated that,

> 'Our boss knows every employee's family background and personal interests. He also remembers every new employee's name. It is not a big deal but workers are touched.'

Another HR manager emphasised the core of labour-management relations in her company, saying,

> 'The company tries their best to support employees in many different ways so that they think of the company at the first instance when they have difficulties or problems. We require our managers to try to be friendly with employees before acting in their roles. We believe that work is important but taking care of employees' lives also cannot be ignored.'

Although 'harmonious' was not an uncommon way to describe the key characteristic of employee relations by the interviewees, in fact, the interviews revealed that the seemingly harmonious employee relations led to conflicts and problems rather than better performance and efficiency. For example, the HR manager in C3 complained that,

> 'Most employees are young and the owner-manager is amiable. There are no administrative levels in the company. The atmosphere in the company is relaxed, friendly, and generally happy. You may think that I am bureaucratic by addressing formal hierarchies. But the lack of a clear boundary between the managers and the employees leads to an imprecision in the use of company policy. It also results in an ambiguity between authority, discipline and accountability in the workplace.'

Moreover, the interviewee's picture of trade union (TU) representation was in many ways less promising. Even though 9 out of 13 interviewed companies (C1, C5, C7, C8, C9, C10, C11, C12, and C13) had a TU, influence was minimal. For example, all interviewees admitted that the TU existed in name only. The tasks of the TU were also the same as the traditional ones, such as organizing entertainment or social activities, taking care of workers' welfare, and co-ordinating relations between management and workers. Most interviewees claimed that the role of the TU was that of a 'carer' for employees or that of a 'conveyor belt' between the employers and the workers. Again, most of the leaders of a TU were designated by the company. It is interesting that the researcher observed that most TU Chairs were older, had worked with the company for a long time and had obtained a high reputation among workers. Nevertheless, the Chair had no negotiating power whatsoever. One interviewee from C12 indicated a dilemma faced by the Chair in his company,

> 'On the one hand, he is the 'tongue' of workers. His main task is to represent the workers' interests. One the other hand, he is an employee, who is the same as the rest of us. He needs to sign a labour contract with the company as well. Therefore, the Chair is always under pressure that his contract may be terminated if he doesn't act on the owner's behalf.'

Again, in the workplaces (i.e. in C5, C7, C10, and C11) where a formal Workers' Congress remained in place, union influence had declined sharply as well. The indications suggest that such Congresses, which should act on behalf of the union, remained less than effective in reality. There were few issues that could be solved or implemented after the annual meeting. One manager from C7 said,

> 'As the master of the enterprise, workers' representatives are able to raise issues of concern freely in the annual meeting. However, these concerns, if they are still mentioned after the meeting, will be treated as harmful rumours that obstruct effective production and cause disorder within the company. Therefore, in fact, major issues are still in the control of top management hands.'

8.4 Contextual Factors on HRM Practices

In order to make sense of what is happening, it is crucial to disaggregate the picture. As Bach (2005) argues, it is variations in national economic and social systems alongside differences related to organisational size, patterns of ownership, and owner's personality that have a crucial bearing on HR/personnel practice in SMEs. Therefore, the following section is going to explore HRM in the 13 SMEs from a different perspective. The contextual factors affecting HR practices in the researched companies are considered from three key perspectives. Hence, more evidence is given so as to construct a much clearer profile of people management in SMEs in China.

8.4.1 Institutional Environment

The interview results reinforced the survey argument by showing that government ideology and action remained a major influence upon most state-involved SMEs especially relating to their organisational structure and the focus of their business practices (see section 8.2.1), while most managers from non-state companies admitted that state regulations and policies were key factors in their decision-making process (see Table 8.10).

For instance, the interviews illustrated that the reforms provided great opportunities for SMEs to grow. As the owner manager from C6 commented,

> 'We have benefited a lot from the reforms. The reforms bring energy into the business by activating the market, improving people's living standards and stimulating purchasing power. The overall economic situation has been improved. Indeed, the investment environment in the domestic market is much more proactive than before.'

In the meantime, the turbulent political, economic, and legal changes also created barriers in the firm's development. The HR manager from a JVE (C9) cited that,

> 'We were an FOE when the company started in 1990. But we had to change to a JVE in name because of the restrictions on FOEs in the domestic market in the 1990s. Hence, we went through many difficulties. For instance, we had to continually keep our customers up-to-date with all the changes that were occurring. In addition, due in part to the problems with relocating HRs among the regions and/or provinces in China, we have to recruit employees locally since not only the recruitment policies are different, but also certain insurance policies cannot be transferred between regions.'

Table 8.10 Impacts of Institutional Environment in the Interviewed Companies

COMPANY	Year of Establishment	Economic Reforms	WTO Accession
C1	1990	Yes	Regulations
C2	1995	Yes	No
C3	1996	Yes	No
C4	1999	Yes	No
C5	1936	Yes	Regulations
C6	1991	Yes	Opportunities
C7	1998	Yes	No
C8	2004	Yes	No
C9	1990	Yes	No
C10	1958	Yes	Product market
C11	1992	Yes	No
C12	1987	Yes	No
C13	2003	Yes	No

Although owner-managers of the DPEs came from different social backgrounds, again, Table 8.11 demonstrates the critical role of the reforms and institutions during the DPEs' business expansion. For example, land purchase at a very favourable rate was one of key methods to accumulate the wealth of the company (as in C1, C2, C3, and C6). A good relationship with educational institutions always helped in generating new ideas for future development (i.e. C1, C2, and C3). Strong government support was a determinant in the business success (i.e. C1, C2, C3, C4, and C6).

Table 8.11 Similarities in the Development of DPEs

COMPANY	Sector	Owner's Background	Key Opportunities	Educational Institutions	Government's Support
C1	Building, Education, and Real estate development	Cadre member	land grants, housing market, tax remittance	University	Yes
C2	Manufacturing (Food processing) and Wholesale services	Farmer	land grants, tax remittance	University	Yes
C3	Manufacturing (Sports floor)	Cadre member	land grants, tax remittance	School	Yes
C4	Service (Advertising)	Professional	market demands	Friends	Yes
C6	Manufacturing and Retail services (Garment)	Professional	land grants, tax remittance	Relatives	Yes

Notwithstanding the significant impacts of economic reforms on SME development, the interview results indicated that the influence of WTO accession was negligible. The majority of the senior managers (see Table 8.10) admitted that the present impacts of WTO on SMEs were minor and indirect, and considered that the WTO provided opportunities rather than threats in the long run.

During the interviews, the interviewees continually argued that the major barriers that prevented the entry of foreign companies into the Chinese market reduced the impact of WTO accession substantially. By looking at the major entry barriers in Chinese markets for foreign companies, Table 8.12 indicates that the difference in product market strategy (6 companies, 46 per cent) was a key factor affecting a lack of direct competition between foreign companies and local firms in the domestic market. It also illustrates that cultural boundaries hindered foreign competitors from entering the Chinese market effectively. In addition, it shows that labour costs were one of the causes that limited most foreign companies from doing business in China in the long term.

Table 8.12 Entry Barriers Reported by the Interviewed Companies

BARRIERS	Number of the Firms	Percentage of the Sample
Product market	6	46
Cultural boundary	4	31
Labour cost	3	23

Again, even though there was increasing competition in finding and retaining highly skilled employees after WTO accession, it was reported that the impact of WTO on the labour market was insignificant to the interviewed SMEs. On the one hand, most senior managers (in 8 out of 13 companies) claimed that there was little demand for highly qualified staffs based on the current developmental stage of the company. On the other hand, those managers admitted that few difficulties were encountered in obtaining a large number of cheap workers as the reforms created a mass of laid-off SOEs' workers in the market.

Despite all the arguments presented above, the WTO did have some influence in the researched SMEs' managerial practices. The most noticeable effect of WTO entry that was illustrated by the interviewees was the pressure from the rules and regulations that the government was adopting. One senior manager from C11 claimed that,

> 'Though there are some foreign competitors who are trying to enter into the market after WTO entry, we haven't felt threatened by the situation as we are in a different product market. Saying this, however, we do feel the pressures from government departments while we are dealing with them, such as bank, tax office, and other financial departments. This is because the State started to regulate those sectors after WTO so as to meet the international criteria. Therefore, we have to adjust our business plans to cope with the situation. For instance, bank loans have been rescheduled as the state-owned bank has shortened the loan period and tightened the inspection procedures.'

Another senior manager in an SOE (C5) also complained that,

> 'These days, we have to follow international regulations to run the business. However, it is harder to change as a medium-and-old SOE. Not only the products, management style, organisational structure, but also the mind-sets have to be transformed entirely. Our business is beaten badly by foreign competitors. It is almost impossible to compete with large international corporations who have great support with finance and human resources.'

In short, the research showed that economic reforms resulted in dramatic changes in organisational structure, and led to SMEs becoming more market-oriented and profit-driven. Moreover, although the impacts were not straightforward, it is evident that WTO accession increases competition in the domestic market by lifting the restrictions on foreign companies and putting pressure on domestic enterprises to follow international rules and regulations. Overall, the evidence suggested that political and economic contexts had strong effects on the development of SMEs. Consequently, as part of core business practices, people management in SMEs is affected inevitably.

8.4.2 National Culture

Boisot and Liang (1992:72) mention that, 'the Chinese enterprise's economic scope is narrower than a Western one, but its social scope is much wider'. The interview results from 830 people in China by Wright et al. (2002) also demonstrate that 'guanxi' is an important part of these respondents' lives, although this may be changing over time. Moreover, in a study of 20 small manufacturing firms in Hong Kong, Siu (2001) argues that the business success of Chinese SMEs is influenced by a close and good relationship in business operations. Further, a number of international HRM researchers have confirmed that personal relationship ('guanxi') limits the adoption of HRM practices in China (Easterby-Smith et al. 1995, Bjorkman and Lu 1999, Glover and Siu 2000, Bjorkman and Fan 2002, Wong et al. 2002). As one of the strong socio-cultural forces from the external environment (see Chapter 4), therefore, the role of 'guanxi' in SMEs' daily business transactions in China was examined and discussed as follows.

The interview results confirmed that 'guanxi' was important in today's market in China (see Table 8.13). The interviewees argued that as an important cultural factor, 'guanxi' was difficult to change since it existed in Chinese society and had become part of social behaviour. Moreover, some interviewees pointed out that the influence of 'guanxi' was even stronger than it was five years ago (before WTO accession) because of the pressures from the highly competitive market and an increasing unemployment rate. Other interviewees implied that to a certain extent, 'guanxi' was part of the social resource of China, and had its market value. They claimed that a positive 'guanxi' could generate profits for the company by strengthening the cooperation and communication in the market, improving a firm's efficiency, and reducing its business expenses. Consequently, 'guanxi' was depicted by the interviewees as 'a kind of productivity', 'a resource', or 'a means'. One of the interviewees from C3 described 'guanxi' in the business operation by stating that,

> 'Guanxi is a device, which acts as a bargaining chip. In today's highly competitive market environment, nothing works if you don't have the ability to perform. But if you have the aptitude and the right connections, you can gain a better deal for sure.'

The owner manager of C6 interpreted the phenomenon of 'guanxi' in the market noting that,

> 'In the market economy, guanxi is a phenomenon resulting from an unfair competition and an inadequate legal system. Indeed, guanxi is an exchange of interests among different parties.'

Table 8.13 Importance of 'Guanxi' For the Interviewees

IMPORTANCE OF 'GUANXI'	More Important	Less Important	Don't know
Owner-manager/ GM	7	2	2
HR personnel	7	3	1
Department/ Line manager	7	2	2
Employee	9	0	1
Total	**30**	**7**	**6**
Percentage of the Sample	**70%**	**16%**	**14%**

Although a large number of interviewees (70 per cent, 30 interviewees) believed that 'guanxi' was significant or even stronger in today's market in China, others (16 per cent, 7 interviewees) acknowledged that 'guanxi' was declining in importance. They argued that 'guanxi' had become less crucial as its competitive advantages had become undermined in the market economy. For example, a line manager in C4 noted that,

> 'The market competition is increasing after WTO accession, and in the meantime, the power of government departments is weakening as reforms progress. Hence, a mature product market and an efficient management system are diminishing the power of guanxi.'

Looking at the main causes that contributed to the important role of 'guanxi' in Chinese society, Chinese culture and its traditional values system were addressed by the interviewees (42 per cent, 18 interviewees) (see Table 8.14). For instance, the interviewees claimed that they felt more comfortable and confident with someone they knew while doing business. One employee from C2 explained that, 'If I meet someone who has the same surname, I feel we are 'zijiren' (a person whom I trust). It makes me feel so close when I hear a person talking in an accent from my hometown. Subconsciously, I feel that I have to show some favour towards him/her.'

Similarly, a line manager in C4 mentioned that,

'It is difficult to change people's mindsets, traditional culture, and a value system that has been formed after thousands of years' development. Compared to Westerners, who care more about a clear standard and regulations, we are more concerned about inter-relationships among people. Personal connection is the most important element in Chinese people's lives. Transferring Western concepts to Chinese society needs time. It is impossible to make the changes overnight.'

Table 8.14 Major Causes of 'Guanxi' For the Interviewees

CAUSES	Cultural and Historical Reasons	Government's System	Trust between People	Don't know
Owner-manager/ GM	5	3	0	3
HR personnel	3	4	0	4
Department/ Line manager	5	3	1	2
Employee	5	3	1	1
Total	**18**	**13**	**2**	**10**
Percentage of the Sample	**42%**	**30%**	**5%**	**23%**

With relation to the role of 'guanxi' in SMEs, therefore, the research illustrated a paradoxical picture, to some extent. By saying this, yet, the evidence suggested a cultural change was taking place in the workplace in the researched SMEs. In addition, the interview results indicated that the impact of cultural factors on HRM was more complicated and subtle than the present formulation would suggest.

8.4.3 Enterprise Dynamics

8.4.3.1 The role of the HR/personnel function

In accordance with the earlier discussion in Chapter 7 (see Table 7.10), the interview results confirmed ownership form as a key factor contributing to the role of HR function in the companies. For instance, most senior managers, HR practitioners and line managers in SOEs (as in C1, C7, C10, and C12) pointed out that company ownership led to an unclear boundary between power and accountability. Therefore, this ambivalence created barriers in the HRM involvement by demolishing the initiative of HR personnel and increasing resistance from employees. For example, the HR manager in C3 complained that,

> 'I feel there is a lack of a trust relationship between the boss and me. As the HR manager, in reality, I have no power in deciding anything although the boss praises the role of HR function highly in the company. For instance, I have asked a few times about how the bonus is distributed among employees so that I can have a better idea of how to improve employees' performance in the company. The boss only gives me a very vague guideline. To be honest, I am confused and frustrated at all times. I don't know what I should do next. I have tried to use the knowledge that I learned from the book. But it is so different (in reality) from what the book says (in theory). I have received a number of negative feedbacks from employees because of the rules and regulations I am trying to apply within the company.'

The interviewees from the DPEs also revealed that the role of the HR function was affected strongly by its ownership form, which was characterized by Schlevogt (2001) as being run under the 'dictatorship' of the owner manager. On the one hand, the HR managers (in C1 and C3) argued that the ownership of DPEs created information barriers, which led to a deficiency in making professional judgement. On the other hand, as a 'one-person' business, other HR practitioners, line managers and employees pointed out that the owner-manager's personal reference became a key determinant on the role of the HR function in their companies (as in C1, C2, C3, and C6). A line manager from C3 stated that,

> 'The owner's approach towards HRM is essential in deciding whether or not HRM is strategically important in the business operation. Overall, a business plan cannot be implemented successfully without an owner's support.'

Therefore, with the competition intensifying as the reforms progress, the emphasis on short-term profitability was addressed during the interviews by most of the senior managers (in C3, C4, C7, C8, C12, and C13). This focus led to a disregard for conducting an investment orientation towards the workforce. In the short-term, consequently, HR managers had even less decision-making power than in the past since line managers had become more important in business operations. As one HR manager (in C3) stated, 'DPEs are different from other ownerships largely because the employer risks his/her own money. Profit is always the main goal to most owners. Since HRM cannot gain profit in a short term, it is understandable that owner managers show their reluctance or ignorance in addressing the strategic role of HRM in the company. It is a little bit short sighted but practical indeed.'

While the effect of ownership form on HR involvement in the SMEs was highlighted by most interviewees, other contextual factors, such as industry sectors and personal connections, influenced the practice. For instance, some interviewees argued that a weak position of the HR department in the company was decided by the type of industry more than by the quality of personnel itself. As a line manager from C4 explained,

'First, there are very few qualified employees in the labour market since the sector is new in China. Therefore, the competition in finding the highly qualified employees is considerably high. Second, because it is a new sector, the regulations are still immature. This leads to a lack of benchmarking for performance evaluation. In other words, to a certain extent, the industry's characteristics restrict the strategic role of the HR department in the company.'

Moreover, the HR manager in C12 verified a limited role for the HR function in his company by arguing that,

'It is impossible to get a job in the company unless you have some connections since the industry is one of the most desirable sectors in the market. However, this affects the extent to which HRM practices are applied in the company. For example, it results in a rarer external recruitment, while internal promotion and personal recommendations become the common practice. Additionally, guanxi creates problems in the utilization of HRs. It is prevalent to have a mismatch between the capability of an employee and the job requirements in the company. Hence, the involvement of HRM in the company is hampered.'

Hence, the research indicated that contextual factors resulted in a tendency for SMEs to vacillate between commitment and ambivalence. Thus, this tendency hindered the strategic engagement of the HR/personnel department in SMEs.

8.4.3.2 Current HRM practices

Employee resourcing

Although the earlier survey findings showed the relation between 'guanxi' and employee resourcing was insignificant (see Table 7.9), the interview evidence demonstrated that 'guanxi' was essential in the practice, especially with relation to recruiting key staffs in the companies (see Figure 8.2). In order to have a better understanding of the role of 'guanxi' in employee resourcing, a further discussion was conducted in the interviews.

Table 8.15 'Guanxi' in Employee Resourcing in the Interviewed Companies

INTERVIEWEES	**Q: Is it possible for candidates to use Guanxi to get a job in the organisation?**			
	Yes	No	Don't know	N/A
Owner-manager/ GM	6	3	/	2
HR personnel	9	2	/	/
Line manager	6	5	/	/
Employee	4	2	4	/
Total	**25**	**12**	**4**	**2**
Percentage of the Sample	**58%**	**28%**	**9.3%**	**4.7%**

Note: N/A – 'not available'

Table 8.15 illustrates that 'guanxi' still appeared to be relatively important, although the degree and the extent varied among the companies. The interview results also suggested that using 'guanxi' to get a job was common practice in most interviewed companies. For instance, during the interviews, 6 senior managers (55 per cent), 9 HR practitioners (82 per cent), and 6 department/line managers (55 per cent) admitted that it was possible to use 'guanxi' to get a job in their companies. Some interviewees (as in C1, C8, and C9) pointed out that 'guanxi' was encouraged by traditional Chinese culture, which addressed an intimate relationship between human beings and the importance of keeping face. Additionally, some managers (as in C1, C9, C10, C12, and C13) argued that to recruit a 'guanxi' person was a way for the company to expand its business network and create a favourable working environment. For instance, it was reported that some companies hired a person with 'guanxi' so as to return or earn favours to/from government departments ('huan/qian renqin'), while others employed someone with 'guanxi' in order to smooth business relations with their business partners.

Moreover, it is interesting to note that 'guanxi' was evaluated as one of key criteria in the selection process by most of the senior managers, line managers, HR managers and practitioners interviewed (i.e. in C1, C3, C9, C12, and C13). Some managers argued that to hire a certain employee to work at a specific position that needed his personal connections could reduce the business cost effectively. Other managers believed that an employee's performance was guaranteed by his/her connections since 'guanxi' would facilitate the employee in terms of obtaining social resources and important business information.

Further, it was reported that being small to medium-sized, the characteristics of SMEs made them particularly susceptible to the importance of 'guanxi'. During the interviews, for example, the HR manager from C2 illustrated the situation by saying that,

> 'It is understandable for owner-managers to bring some personal emotions into the business. Indeed, the control system in most SMEs is not very sound, which makes top management feel insecure. By using a person whom they can trust, the anxieties can be eased.'

While 'guanxi' appeared to facilitate the development of SMEs, it was acknowledged during the interviews that the problems created by by 'guanxi' were a great cause for concern. For instance, a line manager from C9 claimed that she preferred to hire someone without 'guanxi' involved. She explained that,

> 'It is difficult and stressful to manage a person who got into the company because of certain connections. The work relationship becomes too complex and delicate to handle.'

Described as a double-edged sword, additionally, 'guanxi' introduces a tricky situation into business operations. One HR manager (in C1) claimed that,

> 'Too much guanxi involved in the company results in unnecessary problems and difficulties in management. For example, on the one hand, destructive behaviour may be encouraged if the management ignores a problem. Conversely, a useful connection may be damaged by acting upon a problem with an employee hired by guanxi.'

To avoid the problems, therefore, it was reported that interviews had become the major selection tool (11 out of 13 companies) and acted as 'filters' in the final decision-making process (as in C1, C3, C4, C5, C6, C7, C8, C9, C10, C11, and C13). Moreover, some senior managers and HR managers (as in C2, C3, and C4) revealed that 'guanxi' was limited to a group of employees who were normally the least important in terms of business performance, such as part-time employees (in C2), manual workers (in C3), or company trainees (in C4). Further, the evidence showed that at a later stage of their development, some companies (as in C4, C6, C11, and C13) started to shift their focus from recruiting new employees from external labour sources to improving the competence of their existing workforce instead. By doing this, senior managers argued that the companies could minimize the effects of 'guanxi' to the lowest level, while the employees were motivated by the opportunities of internal promotion and personal career development.

It is evident that 'guanxi' is a significant phenomenon in employee resourcing in the SMEs but 'guanxi' cannot explain everything. Employee resourcing was also affected by other institutional factors (as in C4, C5, and C12). For example, in the case of C5, the insignificant role of 'guanxi' was not because of the effort from top management, but largely due to the changed social status of the industry (i.e. the hotel industry). During the interviews, it was mentioned that people's mind-sets towards working status had changed over the years. The managers in C5 stated that current social values in Chinese society encourage people to work in a DPE or a FIE rather than in an old and medium-sized SOE, such as C5. To make matters worse, many large international foreign companies in the same industry entered the domestic market after WTO accession. Those foreign companies attracted many young and/or better quality applicants by providing a better remuneration package. Hence, recruitment in C5 was deeply influenced by the economic environment rather than by cultural factors.

<u>Employee development</u>

Although the earlier survey findings showed insignificant relationships between firm size, ownership form and employee development (see Table 7.10 in Chapter 7), the interviews demonstrated that ownership form was the key factor in employee development in 13 SMEs.

During the interviews, it was apparent that the 'dictatorship' (Schlevogt 2001) of the owner-manager resulted in low levels of trust in the workplace. This low level of trust, therefore, led to the owner-manager having full control over training plans and budgets. Since most owner-managers were not professionals in HRM (see Table 8.11), it was reported that the training programme was mostly based on their own interests rather than strategic analysis or needs. Additionally, as some owner-managers (as in C1, C3, and C6) argued, a high personnel turnover in SMEs, which resulted in higher training expenses, discouraged their investment in training. Consequently, the training programme in DPEs was criticized by their line managers, HR managers/practitioners and employees as non-systematic, piece-meal and short-term oriented. The HR manager from C1 described the training practice in his company by saying that,

> 'Training is not a strict demand in the company. It largely depends on the needs of the work, and also differs from person to person. The owner decides the plan and the budgets. Because of a high turnover in the workplace, it doesn't make sense for the owner to spend money to train someone who may leave at any time. Therefore, the training practices in the company are informal, internal, small-scaled and with little expense.'

In contrast to the crucial role of the owner manager in employee development in DPEs, the interview results illustrated that government policies and regulations were the key determinants of practice in the SMEs that were state-related, including state-holding, state-sharing and SOEs (C5, C7, C8, C10, C11, and C12). In order to improve the overall quality of employees, for instance, the state stipulated that SOEs could draw their training budgets (2.5 per cent of the total amount of yearly salary) before each tax year. Although most state-involved companies (4 out of the 6) had a comprehensive training plan (see Table 8.5 in Chapter 8), the majority of the senior managers admitted the effects of training remained low. The lack of effect was because training programmes were largely designed to meet the state regulations rather than to be firm-specific. Indeed, it is evident that employee development in those state-related companies was in a passive state. For example, some HR managers/practitioners admitted that the training model was out of date. Little interest and few initiatives were found among most senior managers in those companies during the interviews.

As with the five DPEs, the interview results revealed that training in FIEs was reactive and fragmented. Compared to the effects of the owner-manager in DPEs and the influence of state regulations on SOEs, the product market was the key factor in training practice in FIEs. As one HR manager (in C9) said,

> 'Our training programme is very slack. Basically, the training is to ensure the survival of the firm in the market.'

While the earlier survey found that firm size affects training practices in SMEs in general, the interviews revealed that contextual factors, especially the type of ownership form, affected the extent of employee development in SMEs.

Employee reward

By using a cluster analysis, Zheng (1999) examined the link between HRM and organisational performance among 74 SMEs in ten cities in China. Zheng (1999) concludes that performance and incentive management are the two key methods for SMEs in China to obtain favourable HRM outcomes. After interviewing people in 62 JVEs in northern China, Bjorkman and Fan (2002) also argue that individual performance and employee motivation are the two strongest predictors of firm performance. Hence, the impacts of cultural and institutional factors on incentive management were explored during the interviews.

The research has shown that bonuses made up a large proportion of the total wage income of employees, while monetary reward remained the most important means among all the devices for retention (see Table 8.7). However, the interview results from the companies revealed that in fact, these two key features of reward systems were largely determined by institutional factors rather than on the basis of contribution to the firm's needs.

For example, the owner manager from C7 explained the reason behind the current pay structure in his company as follows:

> 'The basic salary is to ensure the minimum living standard and the bonus is the major income of employees. This type of pay structure is one of the main features of SMEs in China, since there is high risk in an unregulated economic market.'

One of interviewees from C8 also addressed the reality of so-called 'money worship' among most Chinese workers. He explained that,

> 'The priority of our work is to support the family. We are different from those Westerners, who may consider self-fulfilment more important than other factors. They (Westerners) are working for achieving self-recognition or satisfying self-interests. We have a totally different purpose (from theirs). We are working for survival. To most of us, money is the major motivator of work.'

Therefore, in line with Siu and Glover's (2001) argument on the barriers to effective managerial practices in enterprises in China, the interviews demonstrated that the turbulent political, economic and legal changes in the Chinese domestic market hindered accurate forecasting for SMEs, and hence, increased their market risk in business operations. Facing a relatively high-level risk, consequently, employers tended to introduce a bonus scheme so as to transfer part of the business risk to their employees. In the meantime, employees were more motivated by monetary rewards as they were pressed by economic necessities to survive in an increasingly competitive market and improve the family living standards.

In a cross-sectional study on 11 non-state owned enterprises in Beijing, Shenyang and Zhejiang, Wong et al. (2002) conclude that traditional cultural values of loyalty, 'guanxi' and 'pao' still play an essential role in affecting Chinese workers' work-related attitudes and behaviours. Although the earlier survey findings showed insignificant relations between 'face', 'guanxi' and reward practice (see Table 7.9 in Chapter 7), the interview evidence supported Wong et al.'s (2002) findings. The research demonstrated that the cultural factors, such as a great concern for relationship, harmony, and preservation of 'face' still influenced the practice, especially relating to employee motivation in the companies.

For example, positional and seniority wages were still indispensable parts of the basic salary for an employee (see Table 8.7). Some of the managers interviewed showed an unwillingness to dismiss inefficient workers, which had impeded the implementation of an effective reward system. For instance, the line manager in C3 noted that, 'In order to improve the performance, a 'last one drop' reward policy has been implemented. However, people are against the policy. There are resentments and complaints from the employees. Managers also feel it is too harsh to be acceptable. The policy is damaging the harmonious relationship in the workplace. As you can see, we are all like brothers, and most of us have stayed since the company started. We would keep the person, even if he/she has made some mistakes or is being a little bit lazy.'

Moreover, some employees (as in C1, C6, and C9) admitted that to a certain extent, 'keeping face' was more vital than economic loss. Further, a lack of social status was considered a major cause of a high personnel turnover in some companies. As the line manager from C5 pointed out,

'The incentive mechanism, such as promotion and monetary reward, cannot inspire an employee's inner enthusiasm. Indeed, the low prestige of the job discourages people from staying with the company in the long run.'

Furthermore, promotion, as one of the major incentive schemes among the SMEs (see Table 8.16), was strongly affected by personal connections. An employee in C12 complained that,

'The definition of key employees is based on personal relations with top management rather than individual performance'.

Likewise, the line manager from C5 also stated that,

'Diligence and hard work are not the important criteria of the reward system in the company. Promotion is not based on an employee's aptitude and/or performance. On the contrary, a good personal network in the company is the key to an employee's career development.'

Table 8.16 Incentive Schemes Deployed by the Companies

INCENTIVE SCHEMES	Total Number of the Firm	Percentage of the Sample
Promotion	12	92
Pay rise	7	54
Honour	6	46
Money praise	4	31
Travel	3	23
Bonus	2	15
Share of stock	2	15
Profit-sharing	1	8
Housing	1	8
Training	1	8
Car allowance	1	8
Holiday with salary	1	8

While economic, political, and cultural influences affecting employee reward practice occurred in various forms, the interviews revealed that ownership form also contributed to retaining and motivating the employees in the companies (as in C1, C10, and C11). For instance, it was reported that both a personal attachment towards the owner manager and a harmonious environment were seen as contributing to a low personnel turnover in most SMEs, especially in all DPEs (C1, C2, C3, C4, and C6). However, some complaints about employee rewards in DPEs were also made by the interviewees. The line manager from a DPE (C1) criticized that,

> 'In SOEs, it is stipulated that pay and performance appraisal must be in a written document. However, this is not applicable in small and medium-sized DPEs. In our company, the owner-manager decides everything. The pay and appraisal system is not made public. Everything operates in a blurred manner. The reward system is not fair and reasonable.'

Because of ownership form, again, some SOEs (as in C10 and C11) benefited from low employee turnover regardless of incentives. The HR manager in C10 explained that,

> 'A low turnover rate is due in part to the poor performance evaluation system which allows a poor performer to stay, and in part to the ownership of the company. Based on the State's regulations, the total amount that the company spends on an employee for a full range of social welfare per year is equal to 43.5 per cent of the employee's yearly salary. Therefore, the real income for an SOE's employee is not that different from the ones in FIEs.'

The senior manager from C11 supported the above argument. She claimed that,

> 'Since SOEs provide more benefits to their employees, a total income for an employee in an SOE is even higher than in a non-state related firm. For example, we provide a good package of social welfare, including five different types of social insurance, a pension, and a number of social activities. Free accommodation is also granted to unmarried employees. In addition, we rarely dismiss the employees and there is less pressure in terms of workloads. Combining all these factors together, therefore, it is rare for an employee to leave the company.'

As the pressure to find ways of engaging and motivating employees in SMEs was increasing, the research suggested that egalitarian pay reward needs were weakening as individual and/or group performance became the major focus in pay and reward schemes (see Table 7.7 and Table 8.7). However, the widely adopted performance-related pay schemes in the researched companies did not imply that the impacts of contextual factors had faded away. Conversely, an inevitable influence from traditional culture and institutional factors still persisted in practice in SMEs,

Employee relations

In spite of insignificant relations between employee relations and ownership form, firm size, 'guanxi' and 'face', the Spearman's rho showed that other cultural factors, including 'respect for seniority', 'loyalty to the firm', 'team spirit', 'collective orientation', 'trust in business partner' and 'taking risk', had significant relations with the practice in the 114 SMEs (see Table 7.9 and Table 7.10).

The interview results supported the earlier survey findings by revealing that 'respect for seniority', which remained a strong influence on people's mindset, affected effective communications within the company. For instance, the employees in C1 expressed concerns about presenting ideas that were different from those of their managers since a contradictory idea might be taken badly or viewed as criticism by senior staff in the company. A line manager from C2 also explained the lack of feedback from his workers as he stated that,

> 'It is not a common practice in the workplace for workers to do such a thing. The workers are not used to the idea that they could come and talk to me freely about their job. They prefer to take an order and do what you say. They feel uncomfortable having a chat with you after work.'

Moreover, it was reported that firm size was part of the reason for one-way, downward communications in the workplace. For instance, the line manager in C13 claimed that,

> 'A large enterprise uses a flat organisational structure so as to minimize its administrative levels. However, this management style is difficult to apply in SMEs. For example, our company has many sub-divisions, which are located in different regions or provinces. Therefore, a sufficiently large information platform is essential if a flat organisational

> structure is adopted. At present, the company does not have such a platform, and instead, a hierarchical and centralized management structure is suitable and practical for the company.'

Though little evidence could be found in the survey, the interview results illustrated that ownership form had some impacts on employee relations, especially in most DPEs. For example, Table 8.17 shows that four out of the five companies (C2, C3, C4, and C6) that did not have a TU, were all small DPEs. The employees from those companies expressed a preference for consulting directly with each other or through the HR department rather than the TU. Line managers and HR practitioners also mentioned that there was no legal regulation to make owner-managers feel any obligation for setting up a TU in the company. Therefore, from both legitimate and practical perspectives, it seemed that the application of TU presence in small DPEs was not encouraged. As the HR manager from C2 pointed out,

> 'A TU would have no real impact on the organisation since the company was too small. Based on my own experience (previously worked as a HR manager in both SOEs and FIEs), in reality, a TU may have some influence (around 10 per cent) in some larger organisations, especially in SOEs and FIEs.'

Furthermore, although most interviewed SMEs (8 companies, 61.5 per cent) rarely dismissed their employees (see Table 8.17), this was largely due to the negative consequences that might result from the dismissal. A manager from C1 illustrated the potential legal problems behind the procedure, and she stated that,

> 'It is difficult to dismiss an employee since the company has to consider the consequences. It is a common practice in most SMEs that employees aren't paid for overtime working hours and a full social insurance. Therefore, based on legal requirements, there is a high risk for the company in paying a large amount of compensation to the employee who is going to be dismissed. Additionally, the loss may increase severely if the case is referred by other employees in the future. In order to lessen the loss, the company has to deal with a dismissal with extra caution. To be honest, the best solution is to avoid the dismissal rather than confront it.'

Table 8.17 Presence of Trade Union and Dismissal in the Companies

COMPANY	Ownership	Trade Union	Dismissal
C1	DPE	√	few
C2	DPE	x	few
C3	DPE	x	easy
C4	DPE	x	few
C5	SOE	√	few
C6	DPE	x	easy
C7	SOE/ State-holding (SOE 55%)	√	easy
C8	SOE/ Corporations (SOE 60%)	√	easy
C9	FIE/JVE	√	easy
C10	COE	√	few
C11	SOE/ State-holding (SOE 55%)	√	none
C12	FIE (US 17.8%)	√	none
C13	FIE/JVE	√	few

Note: '√'= does exist; 'x' = does not exist.

Not only labour disputes were raised during the dismissal, but also the company reputation and the brand image were other considerations mentioned during the interviews to explain why the companies were reluctant to dismiss their employees. To avoid problems, some companies took action well beforehand while others used economic punishment to force workers to leave by themselves without further complaints or negotiation. Overall, the research findings showed that power in the workplace was unbalanced, titling strongly towards employers. As the HR manager from C3 concluded,

> 'The employees are still in a weak position in the labour-management relations in SMEs in China. To employees, this is a 'catch 22' situation. None of the companies would like to keep a 'troublesome' employee. In the end, it is the employee who will lose the job no matter whether he/she wins the case or not.'

Hence, the evidence demonstrated that contextual factors did affect employee relations in the researched companies, although the effects were mixed and complicated rather than simple and straightforward.

8.5 Conclusions

In summary, the 43 interviews extend the survey argument by highlighting several key themes relating to HRM development in SMEs. The results demonstrate that the role of the

HR/personnel function in SMEs is more operational than strategic. In addition, the tasks of an HR/personnel manager remain more or less the same as those described in the traditional Chinese PA. The interviews also indicate that an emphasis on personal relations and the deficiency in terms of the labour market are two main features in employee resourcing practice. Looking at employee development in the companies, moreover, the evidence shows that, in fact, training in SMEs is not only very inadequate, but the programmes tend to be narrow, generally task related and seen as a necessary chore rather than the key to competitive success. Further, the interview results, on the one hand, exemplify the earlier survey findings by showing that the reward system is becoming more sophisticated whereas employee benefits in the companies are minimal. On the other hand, it reveals that the incentive schemes create problems and conflicts in the workplace rather than motivating the workforce and attracting key employees. Again, to reinforce the survey findings, under the seemingly harmonious employment relationship it is clear that there is no real employee involvement or participation in managerial decision-making processes.

More importantly, the evidence from the 43 interviews also underlines the survey findings that the influences of contextual factors on HRM in SMEs still remain, although the degree, level, and extent of the influence may vary. The results indicate that the effects and importance of cultural factors, such as 'guanxi', are relevant and crucial in people management and daily business operations in SMEs in China. With different forms or on a much deeper level, the research demonstrates that people management in SMEs contains strong Chinese characteristics. Hence, the extent to which HRM practices are adopted in SMEs is limited by institutional and organisational inertia. In other words, the findings suggest that transferring a Western HRM model as a response to the challenge for change in the Chinese market may be unlikely to provide a simple solution for SMEs as the effects of contextual factors still exist in the firms. Therefore, the conclusion and implications are made on HRM development in SMEs in the following chapter.

CHAPTER NINE
Conclusion

9.1 Introduction

Despite all the focus on China's development towards becoming an economic superpower, the important role played by its SMEs has received less attention vis-à-vis that paid to its large firms. The study primarily uses data obtained from a survey conducted among 114 SMEs and a further 43 semi-structured, in-depth interviews with employees from 13 companies in Jiangsu province, Eastern China. Drawing on the empirical evidence, the findings demonstrate that the implementation of HRM practices in the researched SMEs in China is still in its infancy, though the development of HRM is promising. In addition, the research concludes by suggesting that HRM transfers may result in convergence and contrasts this possibility with the reasons for possible continuing people management distinctiveness and divergence in the context of Chinese SMEs.

Therefore, the aim of this chapter is to outline the main conclusions of the current research into people management issues pertaining to SMEs in China. For this purpose, the chapter has been divided into three main sections. First, it looks at the overall discussion and conclusion of the findings related to the research questions developed from the conceptual framework in Chapter 5. Second, it focuses on theoretical and practical implications of the current research for HRM study in SMEs in China. Third, it outlines the limitations of the study and finally, offers suggestions for further research so as to obtain more findings.

9.2 Discussion

9.2.1 Research Question 1: What is the role of the HR/personnel function in SMEs?

Goodall and Warner (1997) state that the role of the personnel department in the old 'iron rice-bowl' system was mainly one of 'monitoring, controlling and punishing' (p.589). In contrast to the activities described in the traditional Chinese PA (see Chapter 5), the current research findings demonstrate that to some extent, the activities of the HR/personnel department in the sample companies remain closer to those of the old pattern. For example, personnel managers in the interviewed companies mostly dealt with payroll and social benefits, recording clock-in, allocating employees to departments, organising induction courses, participating in employee recruitment and selection, and arranging training and promotion (see Chapter 8). Indeed, the findings seem to suggest that the role of the HR/personnel function in SMEs still remains partly the same as in the old system, especially relating to the administration of personnel.

In addition to the similarities, the research found differences in the HR/personnel function between the companies and the old PA system. For instance, the terminology, such as 'human resource' rather than 'personnel' was often used by the senior managers, HR practitioners and line managers during the interviews. The role of the HR/personnel managers in the SMEs was underlined as that of being 'supportive' of the business objectives of the company rather than acting as 'the policeman' (Warner 2001) of the organisation, who was applying personnel rules and regulations to control employee behaviour. The importance of the personnel function in the organisations was emphasised by senior managers, HR practitioners and line managers as being to 'convey company policies and principles to employees so as to ensure no misunderstanding occurs' (as quoted by the HR manager in C4) rather than 'acting as a vehicle for ensuring conformity for the Party' (Goodall and Warner 1997: 587). Moreover, the range of powers of the HR/personnel department in the SMEs has moved away from the old form of PM practices (PA). One of the major responsibilities of the PA department in terms of managing personnel files (Warner 1997), for instance, has become increasingly insignificant as employees' mobility has been enhanced in recent years (Warner 2001). Further, the position of the personnel department in the company is being weakened by the devolution of HR responsibilities to line managers (see Chapter 8). For example, the owner of an advertising company (C4) claimed that, in reality, line managers were key decision-makers in terms of HR issues, such as recruitment, training and rewards.

Compared with the personnel function in the traditional PA, thus, on the one hand, the findings reveal that to some degree, the institutional and organisational continuities of the traditional practices are still prevalent in the SMEs, and on the other hand, the importance of the personnel department, especially relating to the role of applying 'bureaucracy', 'supervision' and 'control' (Goodall and Warner 1997), has been reduced dramatically. In addition, the emphasis of the HR/personnel function has been shifted from political concerns to business matters.

Although it is clear that the HR/personnel function in the SMEs is different from that in the traditional Chinese PA, evidence shows that the role of the HR/personnel function in the researched companies is still far from that of 'a strategic partner' as defined in the Western HRM concepts. For instance, the survey findings demonstrate that the top three functions of the HR/personnel department are recruitment, training and development and labour relations, whereas top management involvement is one of the least common functions. In addition, the research exemplifies that the HR/personnel specialists in the interviewed companies are mostly involved with day-to-day, trivial matters rather than decision-making processes (see Chapter 8). Further, the operational role is reinforced by a perception among interviewed senior managers, HR practitioners, line managers and employees that there is insufficient HR talent available to fulfil the strategic role (as in C1, C3, C4, C6, C7, C11, C12, and C13). Furthermore, the findings show that significant barriers to implementation exist, notably the nature of an SME itself, that is, informal, reactive and short-term in outlook, and the old habits and mindsets of a traditional Chinese management style (see Chapter 8).

Overall, the current study demonstrates that the role of the HR/personnel function in SMEs is still very different from the Western HRM concept, although there is a noticeable difference from the role played by personnel in the traditional PA system. In addition, the development of the HR/personnel function in SMEs, which can be characterised as halfway between the old PA system and the HRM approach, may result in a negligible rather than a crucial role for the HR/personnel function from both administrative and strategic perspectives. Hence, this study also implies that the attempt by HR managers to shift from an operational to a strategic role is obstructed.

9.2.2 Research Question 2: To what extent are HRM practices applied to SMEs?

Based on the survey and interviews, Table 9.1 summarises the major characteristics of four key categories of HRM practices and the role of the HR/personnel function in the researched companies. The table also illustrates that problems and difficulties may occur during HRM take-up in SMEs. By comparing HRM practices in Chinese SMEs with Western HRM models, the research demonstrates that some changes have been made in HR practices in SMEs, although the progress is slow and the effects on business performance are minor.

Table 9.1 HR Function and Key HRM Practices in the Researched SMEs

HRM	Key Features	Problems and Difficulties
The role of the HR function	– Functional and operational; – Simple and basic tasks; – A recognition of the importance of HR	– Lack of highly skilled HR professionals – Gaps between HRM theory and reality; – Inconsistency in understanding HR role among different interest groups;
Resourcing	– Internal recruitment policy (i.e. referral and internal job bidding); – Importance of informal 'grapevine' methods (i.e. personal connections); – More diverse labour force; – More market-driven	– Difficulties in finding highly qualified employees in the labour market; – Personal connections lead to selection bias;
Development	– Limited training opportunities; – Narrow and task-related training content; – Non-management training is informal 'on the job' (i.e. 'sitting by Nellie') and conducted as induction exercises with no commitment to any further training; – Management trainings are to benefit from formal external courses and study; – Technical training is addressed	– Training planning is mainly based on personal perceptions and expectations of senior managers; – Reluctant to engage in sustained investment in the process (i.e. focused on developing general managerial skills through seminars); – Conflict between production and training
Rewards	– Positional and seniority wages still exist; – Workplace attitude and behaviour, loyalty to the firm as part of reward criteria; – Minimal employee benefits; – Reward system becomes more sophisticated and diverse; – Widespread performance-related reward scheme; – Monetary reward is the most important means	– Bonuses increase tension among different interest groups within the company; – Reward strategy may impair employees' legal rights;
Relations	– Participation is confined to operational issues – One-way, downward communication – Informal dismissal and termination procedures – Most DPEs are non-union firms and have no plan for recognition; – Roles of union and Workers' Congress are insignificant	– Lack of involvement at strategic level – Little interaction among departments, employees and managers; – Contradictory labour-management relationship

For example, the importance of the HR/personnel function in business was acknowledged by senior managers and line managers, although there are problems in translating awareness into action. In terms of employee resourcing, evidence shows that companies can source potential employees from a more diverse labour market in contrast to the one in the pre-reform period, while the techniques of recruiting and selecting a suitable candidate in the SMEs are still simple. For employee development, the survey demonstrates that most companies have made an effort to improve training, especially in improving employees' technical abilities, but in the meantime, the interview results reveal that the content of training programmes is more about general knowledge than about sophisticated and specialized practices.

In relation to employee rewards, both the survey and interviews exemplify that higher pay has been given to the employee who has higher skills, better performance and better qualifications. Hence, the research findings indicate that the need for an egalitarian pay reward is weakening in most SMEs as individual and/or group performance becomes the major focus in pay and reward schemes. However, it is also reported that the reward system in SMEs has increased tensions among different interest groups and has impaired employees' legal rights.

As Ram et al. (2001) argue, again, informality in employee relations in the researched companies does not disguise or smooth away the power relationships that shape the management process. The findings illustrate a contradictory labour-management relationship in the researched SMEs. Although most interviewees, including managers and employees, claimed their boss was friendly and caring, the level of employee involvement in decision-making remains low. In addition, the limited rates of dismissal among the companies are largely due to a desire to avoid the negative consequences that may result from the action rather than to the strong position of employees at the negotiating table. Further, the findings support the argument made by a number of researchers (Warner 1995, Chan 2000, Ding et al. 2002, Cooke 2005), which is that TUs in China do not have any distinctive 'trade' characteristics, and that the notion of autonomy does not exist.

The changes in HR practices in SMEs towards HRM are not only insignificant, but also the majority of HRM practices adopted by the companies can be seen as short-term oriented, superficial, or following a fashion or trend, instead of dealing with fundamental changes in the firm (see Chapter 8). In other words, the research findings imply that the changes in HR practice in SMEs are largely due to external forces (i.e. economic, institutional and cultural factors) rather than the company's internal needs. In short, the current study supports Benson et al.'s (2000) argument that Chinese enterprises have not reached the stage of thinking that managing culture is more important than managing procedures and systems. Thus, there is little evidence of Western HRM practices taking root in SMEs, although the importance of HRM has been acknowledged by the enterprises.

While the current study demonstrates that the implementation of HRM practices in SMEs is still at an initial stage of development in comparison with Western management concepts, it is clear that people management in the researched companies is significantly different from past personnel practices (see Table 4.1 in Chapter 4). In addition, the findings show that the main features of people management in SMEs are similar to those defined in the 'newer' PM in China in that all companies had labour contracts with their employees, external courses for management training, a structural wage system combined with a performance-related and finance-driven reward scheme, an insurance system for employee' benefits, a hierarchical and centralised organisational structure with the trade union having only a weak role. Further, it should also be mentioned that the old PM practices still exist to some extent. For instance, it is reported that seniority and positional wages are used as part of the pay category in most interviewed companies. Enterprise-based learning remains one of the main training methods applied by most companies. In agreement with Warner and Zhu's (1998, 2004) review on Chinese management, therefore, the current study demonstrates that HR practices in SMEs in China have emerged with a new, more market-driven management model compared to the traditional Chinese PA system. However, it is not the same as the HRM model in the West, although there is a slow convergence towards Western HRM practices in SMEs in China.

9.2.3 Research Question 3: What are the institutional and cultural factors that affect HRM take-up in SMEs?

Warner (2001) notes that the role of national culture and institutions weighs heavily in the balance in the study of HRM in China. The research findings confirm his argument by showing that traditional Chinese culture (i.e. relationships, harmony, and preservation of face) and national institutions (i.e. the role of the state) have insightful impacts on the adoption of HRM in SMEs. For instance, the findings demonstrate that personal connections ('guanxi'), one of the key cultural factors, still play an important role in today's market in China. Although the interviewed firms had different ownership forms, and were from different industry sectors, moreover, the interview results illustrate that the development of all companies are greatly influenced by economic reforms.

Traditional Chinese culture and national institutions not only affect the take-up of HRM in SMEs as they shape the national environment in which SMEs are operating, but also influence the process directly through their impacts on firm type and patterns of behaviour. The evidence shows, for example, that the role of the HR/personnel function in the sample companies was influenced by ownership, industrial sector and pervasion of personal connections in the workplace. In addition, personal connections still had an effect on employee resourcing practices, especially in the recruitment and selection processes. Further, the features of training programmes were influenced by the companies' type of ownership. In employee reward, institutional factors (i.e. market uncertainty) rather than the firm's needs, determined SMEs' pay structure, while cultural values, such as a great concern for relationship, harmony, preservation of face, still had a strong bearing on employee motivation, working attitudes and behaviours. Again, a hierarchical, downward and one-way communication in employee relations was encouraged by traditional Chinese cultural values.

Table 9.2 summarizes the impacts of key contextual factors on the adoption of HRM in the researched companies. In line with the conclusions made by some HRM scholars in their studies of Chinese large enterprises (Chow et al. 1999, Ding and Akhtar 2001, Ding et al. 2001, Ding et al. 2002), the results confirm that types of ownership and firm size are two key variables in explaining an organisation's choice of HRM practices in SMEs. While exploring the causes behind the differences experienced in the SMEs, the findings also reveal that the influences of cultural and institutional factors have remained surprisingly resilient. Therefore, beneath the surface, some reservations about Chinese characteristics exist in a subtle way. Moreover, the evidence shows that the influence of these factors grows as development progresses. Hence, this study concludes that Chinese characteristics will persist in people management in SMEs.

By saying this, nevertheless, the research implies that Chinese characteristics may not be as negative as has been claimed in the HRM take-up in Chinese enterprises (for example, Ding and Warner 1999, Ding et al. 2000, Glover and Siu 2000, 2001, Wright et al. 2002). Similar as the arguments made by some HRM scholars (for example, Ding et al. 1997, Schlevogt 2001), conversely, the current study illustrates that to a certain extent, national institutions and traditional culture provide support for the development of HRM in SMEs. For example, 'guanxi' in employee resourcing facilitates the development of SMEs by expanding a business network, reducing operational costs and creating favourable working environments. The cultural factors act as an incentive mechanism to inspire employees' inner enthusiasm. Government policies and regulations have encouraged SMEs to invest in their employee development and secure basic social benefits for their employees. In other words, the research shows that the effects of contextual factors on the development of people management in SMEs is mixed and complicated. On the one hand, the findings support the argument of Easterby-Smith et al. (1995) and Verburg et al. (1999) that there are strong cultural and institutional factors that limit the adoption of many features of HRM in SMEs. On the other hand, the research indicates that to a certain extent, Chinese cultural values and national institutions do appear to have a positive effect on people management in SMEs.

Table 9.2 Effects of Major Contextual Factors on the Take-up of HRM in SMEs

HRM	**Major Contextual Factors**			
	Cultural Values	Institution	Ownership Forms	Employee Size
The Role of the HR function	-	/	-	/
Employee Resourcing	+/-	-	/	-
Employee Development	-	+	+/-	-
Employee Rewards	+/-	+	+/-	/
Employee Relations	-	/	-	-

Notes: '-' = 'negative effects; '+' = 'positive effects'; '/' = 'negligible effects'

Overall, the research demonstrates that cultural and institutional factors still play an essential role in people management in SMEs, although it is evident that some core concepts in the Chinese cultural value system have been challenged as people management in SMEs moves towards a more market-driven system (i.e. harmony vs. the emphasis of individual skill development). Thus, handling contextual factors, such as institutional and cultural forces, so as to benefit management, rather than allow them to form barriers, is a further issue to be considered.

9.3 Theoretical and Practical Implications

9.3.1 Theoretical Contributions

Currently, there is a great amount of literature on HRM in China, mostly drawn from large-sized enterprises (1000 employees plus) and the major focus is on JVEs, TVEs or SOEs (see

Table 4.4. and Table 5.2). However, less work has been done on HRM in SMEs. Thus, the main purpose of the current study is to help fill the gap.

The valuable findings derived from the current study are, firstly, that the nature of people management in SMEs in China displays transitional features. The current research demonstrates that there is not only a clear break between people management in SMEs and past personnel practices, but also a tendency of people management in SMEs to move towards convergence with HR practices aimed at enhancing organisational performance. However, convergence appears to be more on the macro level, pushed by competitive forces from the business environment in China, such as WTO accession, and economic and social structural reforms. These institutional contingencies stimulate the development of SMEs, and support the demands of Western management concepts, namely, 'best practice'. At the enterprise level, indeed, evidence shows that current HR practices in SMEs are quite different from the ones deployed in large enterprises in the West.

In addition, the current study confirms the findings on the importance of Chinese culture in the HRM take-up in Chinese enterprises by Benson et al. (2000), Warner (2001), Wong et al. (2002), and Child and Warner (2003). It also supports institutional theory, which emphasises that dominant institutions have an important influence on the kind of HRM practices that are adopted by organisations and are the key to the explanation of their characteristics (DiMaggio and Powell 1983, Orru 1991, Whitley 1992, Pauuwe and Boselie 2003, 2005). Further, the current study reinforces the argument made by Ding et al. (2001) and by Ding and Akhtar (2001) that ownership and firm size are key determinants in shaping HR practices in an organisation. Overall, the current study in particular presents further crucial empirical evidence for the specific roles to be played by culture and institutions in the transition of HRM in SMEs in China.

Further, the research demonstrates that differences remain between people management in SMEs in China and Western HRM concepts due to deep-rooted cultural and institutional factors, and this study indicates the development of people management in SMEs in China in two possible directions. On the one hand, it is evident that there are similarities between people management in SMEs in China and the early stage of HRM in the West. For instance, in the earlier discussion (see Chapter 3), some HRM scholars argued that the change from PM to HRM in the UK reflected the changes in organisations and in society. In a similar vein, the shift of people management in SMEs in China, which can be observed from the old Chinese PA to a 'newer' PM model, and then the slow convergence towards HRM, is encouraged by external factors, such as a new political ideology and the changed national and global environment. In line with the arguments made by Cooke (2002) and Mok et al. (2002), additionally, this study shows that SMEs in China are facing similar problems to those seen in Western countries (Cully et al. 1999, Hill et al. 2000), such as inequality of bargaining power between labour and management, job insecurity, and the incompleteness of the employment contract. Therefore, although we cannot make conclusive predictions, since we are dealing with two very different political systems, nevertheless, the findings of this study seem to suggest that, if left to evolve, people management in SMEs in China would probably converge towards that in the West.

On the other hand, people management in SMEs in China displays some resemblances to such management practices in SMEs in the West, though more precisely, those firms should be called medium-sized enterprises. For example, the historical development of the 13 interviewed SMEs confirms the argument made by Edwards and Ram (2006) that the survival of SMEs relies on the dynamic use of resources and the context of changing economic and regulatory conditions. Thus, this study supports the findings by Storey and Westhead (1996) and Hill and Stewart (2000) on external uncertainty as one of the key characteristics of SMEs. Similar to other studies of SMEs in other countries (Hornsby and Kuratko 2003, Gray and Mabey 2005), moreover, finding and retaining highly qualified employees is the major problem mentioned by most interviewed senior managers, line managers and HR practitioners in people management in SMEs in China. Further, the role of the HR function in these SMEs appears to follow a pattern similar to the one described by Marlow (2000) in his study of 64 small firms (<210 employees) in the UK, such as a belief in the importance of HR but lacking any formality (i.e. no personnel or HRM manager in post; the whole management team/line manager undertakes the role of HR); a problem in respect of translating awareness to action; and that the HR decision-making process is concentrated mainly in the hands of owner-managers or the management team. Again, evidence shows that informal approaches to employee resourcing (i.e. 'word-of-mouth') (Cassell et al. 2002, Carrol et al. 1999), training (i.e. 'sitting by Nellie') (Marlow 2000, Harry 1999) and employee relations (i.e. informal discussions, dismissal and termination procedures) (Ram 1999, Wilkinson 1999) are the most common methods applied in the researched companies.

Overall, the findings of this study provide the reader with a better understanding of the nature of people management in SMEs in China and the possibility of the HRM take-up in a different institutional and cultural setting.

9.3.2 Practical Implications

The current study not only contributes to the development of HRM theory by filling the gap in the analysis of people management in SMEs in China, and accumulating further evidence on SMEs' development in general and the debates regarding the possible convergence or continuation of differences in HRM in particular, but also has a number of practical implications for Chinese SMEs' managers, HR practitioners and policy makers, as well as for foreign managers and companies who are doing or intending to do business in the Chinese market.

Looking at the four main HRM categories, firstly, Chinese SMEs' managers and HR practitioners should adopt a more systematic approach to recruitment and selection in employee resourcing practices so as to reduce bias and errors. Additionally, facing the most common problem relating to retaining highly qualified employees within the company, the aims of recruitment and selection for SMEs' managers and HR practitioners are not only to find the right person to fit a specific job, but also to help build a long-term commitment to the organisation by allowing new employees to gain a realistic understanding of the job and organisational culture. In this sense, recruitment and selection, as Sue (2005: 143) argues, becomes 'part of the broader process of socialisation rather than isolated episodes of choice'. Consequently, some traditional, informal approaches, such as 'word-of-mouth', 'grapevine' methods and personal connections, which may have limited the HRM take-up, are useful as they enable candidates to develop an accurate picture of what to expect if they join the company.

In terms of employee development, government intervention is evident, especially in state-related companies. For example, there is a training allowance stipulated by the state so that employers can offer vocational training to their employees. However, it would be unwise for policy makers to assume that economic pressures will force all firms to upskill their workforce. On the contrary, the current study implies that there is not a universal movement towards higher skills as a key component of organisational strategy, especially in SMEs. For instance, most senior managers (including owner-managers and general managers) during the interviews showed satisfaction with their companies' current situation and had no plans to change, although they admitted that the business was competing at a low margin with limited differentiation and relatively low specification offerings. Accordingly, price leadership rather than skilled employees was addressed by those senior managers as the key to their business strategy, and consequently, labour was a cost to be minimised. In addition, the government monitors progress towards the upskilling of the national workforce by means of measuring formalised training, particularly the achievement of qualifications, which may not reflect the importance of informal learning in the workplace, especially in SMEs. Thus, how to address informal training, the main approach adopted in SMEs, is a further issue for consideration.

Further, for employee rewards, as new institutionalism suggests, the organisation may well conform not because practices are proven to contribute to improved business performance but because they are encouraged to copy what others are doing (DiMaggio and Powell 1983). In other words, as Oliver (1997) argues, the widely adopted performance related pay schemes in SMEs might have nothing to do directly with the pursuit of 'business success' but to aim ensure conformity within social, political and cultural expectations. In addition, this study has shown that different types of employees value different types of reward (see Chapter 8). Thus, a total reward scheme, which is designed to incorporate as many pay and non-pay returns as possible into the package (IRS 2003), may be a better choice by the SMEs' managers and HR practitioners so as to allow rewards to be offered that meet diverse needs.

With regard to employee relations, furthermore, some HRM scholars argue that encouragement of employee involvement in the organisation does not fundamentally challenge existing labour-management relations. In a way, employee involvement, such as direct participation and team working, merely reinforces authority and management control through more sophisticated means (Marchington and Wilkinson 2005, Barker 1993). However, the state can alter the relationship by raising the awareness of individual employee rights, for instance, through unfair dismissal protection. In doing so, it will give some support to employees where they are weak and uncertain of their formal rights.

In the case of people management in SMEs in China, hence, the tendency to converge towards Western HRM models is not the only simple answer, but the overall solution is more complicated. Moreover, extra caution should be taken while using the terminology of 'HRM' for people management in SMEs in China, since it has few similarities with HRM as it is applied in large firms in the West.

Practical implications for foreign companies in doing business in China are also abundant. For instance, foreign managers and companies should realise that it is not impossible but difficult to be impersonal in China, since 'guanxi' personalises human relations in formal business operations. Therefore, finding a way to develop and use 'guanxi' rather than diminish it may provide better opportunities for foreign companies when dealing with Chinese partners or doing business in the Chinese market.

Second, the current study demonstrates that HRM in SMEs in China is different from that of the West. This finding implies that Western HRM experience doesn't necessarily prepare a company or individual for the Chinese market. Additionally, the extent to which HRs can contribute to the company's competitive advantage may not have been fully captured by the previous research conducted largely from a Western perspective. Thus, on the one hand, cultural and institutional impacts should be taken into account by foreign companies when anticipating how their Chinese employees may interpret and react to their HR practices. On the other hand, foreign managers can learn from the best practices of certain successful Chinese enterprises. For example, it is evident that recruiting an employee who has 'guanxi' may help the company in building effective business relationships with other interest groups in the Chinese market, and gain competitive advantages to a certain extent. In other words, the finding suggests that foreign managers and HR practitioners may reconsider their HR policies and practices in the Chinese market with special reference to 'guanxi' competencies and skills.

Overall, the key for foreign companies to operate successfully in the Chinese market is to find a balance between the company's principles (for example, merit and performance) and a certain flexibility to cope with the Chinese cultural and institutional environment, such as the legacy of command economy, the 'iron rice bowl' work culture, and relationship-orientation versus rules-based institutions (Ahlstrom et al. 2005).

9.4 Limitations of the Study and Future Research

The focus of the current research is on urban SMEs with fewer than 500 employees in Jiangsu province, Eastern China. No inference is made with regard to SMEs from rural and/or other regions in China. Since the gathered data should not be taken as being representative in the statistical sense of all SMEs in China, prudence is necessary when interpreting the results.

Also, the sample was chosen through loose personal connections. In other words, the sample is not randomly selected. This leads to a lack of representativeness in the sample. In addition, all of the research subjects came from SMEs located in Eastern China. As other regions of the country were not part of the sample, generalising the results to all of China may not be appropriate. For quantitative data analysis, the current data set is also a little bit too thin. A much larger database could provide more reliable evidence. With this in mind, the study can claim only to be exploratory. Therefore, as Yin (1993) points out, the researcher is looking for some resemblance or accumulative evidence rather than to generalise.

Third, the study used the survey and in-depth semi-structured interview as its main methods of data collection. One of the major aims of the researcher was to gain as much information as possible from different sources. Though triangulation was used to minimise the problems in both research methods, it could not avoid the nature of both methods, which provide only a snap shot of one point of the development of HRM in these firms. In addition, some contradictory results were raised in the interviews compared to the findings from the survey. For instance, the survey findings showed that the relation between 'guanxi' and employee resourcing was insignificant, while the interview results revealed that 'guanxi' was essential in practice. Although the discussions were supported by reference to other published studies, a longitudinal, participating study in the future would be the ideal way to offset the weaknesses of the current method.

Finally, the study identified the potential importance of gender aspects in Chinese HRM by showing that the HR occupation was divided equally between male and female employees. Therefore, the interaction between gender and HRM could be explored in future research so as to enrich understanding of the development of HRM in emerging economies.

Thus, a more comprehensive analysis of HRM practices in SMEs in China would require the involvement of enterprises from different regions and perspectives. In addition, a systematic comparative study is encouraged across regions, sectors and countries.

9.5 Conclusions

SMEs have become recognised as being important to business development in many economies around the world. China is no exception to this. Officials from the central Chinese government claim that SMEs are in a better position to adapt to the WTO environment since they lack the social, managerial and financial 'baggage' of most large SOEs. Officials have also said that SMEs can further integrate themselves into MNC supply chains so they can one day become 'giants' in their own right (www.usembassy-china.org.cn/econ/smes2002).

As competition in the market environment increases, the current research has demonstrated that a change of people management has taken place in SMEs in China. Conversion from a traditional Chinese PA towards Western HRM practices is in process, but the progress is slow. The transition appears at different levels within organisations (for example, managerial and employee levels) and the degrees vary among different practices (for example, employee resourcing, development, rewards and relations). In the meantime, the evidence illustrates that traditional mindsets still have a strong impact on people's behaviour and, therefore, influence the extent of the adoption of HRM practices in companies. These contextual factors may hinder the movement towards purely 'Westernised' HRM practices, but this may not be such a bad result within the unique Chinese context. Overall, HRM in SMEs in China is still at its initial stage, although HRM is playing an important role in helping SMEs to become more efficient.

In line with the argument made by Becker and Gerhart (1996), moreover, the current study implies that the notion of 'best practice' should be understood as a shifting and relative term at an enterprise level, though a 'universal' best practice effect, representing basic assumptions and principles, exists in general. Therefore, in order to gain a sustained competitive advantage, SMEs in China should decide the most suitable HR practices approach for themselves with consideration as to different societal, sectoral and organisational factors. In the end, best HRM practices ought to be the ones best adapted to cultural and national differences, and each firm's specific feature.

All in all, the research findings suggest that a relative convergence with Western HRM practice, although one that is strongly influenced by unique 'Chinese characteristics', will be the trend of development of HRM in SMEs in China. In addition, various HRM models, which combine features between 'East' and 'West', are likely to emerge in future.

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APPENDIX I

Cover Letter

Dear Sir/Madam:

I am Mrs. Li Xue Cunningham. I am a PhD student at Cass Business School, City University, London. As a partial requirement for the degree, I am conducting a research on human resource management (HRM) in companies operating in China.

The research is one of the pioneering efforts to explore HR issues in China and promises to contribute significantly to the buildup of a common body of knowledge on HRM in China.

Importantly, as the research is of non-commercial purposes to build and share knowledge, your interest in the survey result is warmly welcome. Your company can benefit from the research by comparing your HR practices and the practices that will be found to be effective for the Chinese context and then take actions accordingly.

I would like to ask for your assistant by filling out the attached questionnaires. The enlargement of common knowledge rests heavily on your helpful hands. Please provide your valuable assistance by responding **by 20 March 2005.**

You may keep your response anonymous and please be assured that your reply will not be shared to any third party.

Wish you a successful year in 2005 with great company performance.

With best regards

Li Xue Cunningham

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APPENDIX II

Survey Questionnaire

This is a questionnaire concerning human resource management practices and policy within Chinese enterprises. All information collected will be for academic and research purposes only and will be kept confidential. Thank you for your time.

Organisation Profile

1. What year was the organisation founded? ____

2. The most important source of your organisation revenue is:
   1) Manufacturing (produce components into finished products)
   2) Services (doing things for customers rather than manufacturing things, such as financial services, retail stores, hotel, leisure business)
   3) Government or non-profit organisation
   4) Others (please specify): _____

3. Approximate annual turnover (gross sales) (RMB) for the last five years (2001-2005):
   2005_____ 2004_____ 2003_____ 2002_____ 2001_____Million

4. Annual net profits (RMB) for the last five years (2001-2005):
   2005_____ 2004_____ 2003_____ 2002_____ 2001_____Million

5. How many operating sites (e.g. plants and branches) does your organisation have? ____

6. How many employees are in your organisation (incl. different branches and plants)?
   1) <50
   2) 50-100
   3) 101-150
   4) 151-300
   5) 301-500
   6) >500

7. What percentage of the employees in the organisation are on long-term labor contracts (>=1year labour contract)? ______

8. What percentage of the organisation's employees is temporary (no contract agreement or <1year labour contract)? _______

9. What is the average age of the employees in your organisation? _____

10. Ownership structure of the organisation:
    1) State
    2) Collective
    3) Private
    4) Employee shareholding cooperatives

5) Foreign (i.e., solely owned, joint venture, alliance)

11. Share structure (Total 100%)
   1) State: ___% of shares
   2) Collective: ___% of shares
   3) Foreign: ___% of shares
   4) Family members: ___% of shares
   5) Others: ___% of shares

12. Does the organisation have a separate HR or Personnel Department?
   1) Yes 2) No

13. Which functions is the HR or Personnel Department in your organisation responsible for? (Please tick as many as applicable)
   1) Recruitment
   2) Selection
   3) Training and development
   4) Administer employee's compensation
   5) Performance appraisals
   6) Collective bargaining
   7) Safety and health
   8) Labor relations
   9) Advice employees on career planning
   10) Advice top management on business strategy
   11) Others (please specify): ________________

Human resource management (HRM) practices

14. Does the organisation conduct human resource planning practice?
   1) Yes 2) No (go to question 15)
   Does the organisation forecast the numbers and kinds of employees needed in future?
   1) Yes 2) No
   How often is human resource planning done in the organisation?
   1) Every year
   2) Every six month
   3) Every three month
   4) Every five year
   5) Others (please specify): ________
   Who are directly involved in the human resources planning? (as many as applicable)
   1) Board of Directors
   2) Department managers
   3) Union representatives
   4) Immediate supervisor
   5) Personal department
   6) Other (please specify): _________

15. Job vacancies in the organisation are mostly filled from (as many as applicable):
   1) Internal job bidding (for example, job posting via memos, emails, bulletins, newsletters)
   2) Promotion (for example, internal HR data bank)
   3) Recalls and rehires (employees who left for a variety of reasons, for example, personal and

family circumstances, retirement or simply at the end of projects or contracts, and so on.)

4) Employee recommendations and contacts
5) Inheritance of jobs ('dingti')
6) Referrals (for example, local job center, labor market)
7) Government allocation
8) Agencies ('laowu zhongjian jigou')
9) Professional search firms (for example, the search consultant and/or headhunters)
10) Educational institutions (for example, university recruitment)
11) E-recruitment
12) Advertising (for example, media, career exhibitions, conferences, brochures)
13) Others (please specify): _______

16. What tools are you using during selecting process? (as many as applied)
    1) Application forms
    2) References
    3) Interviews
    4) Probation period
    5) Job performance tests
    6) Written tests
    7) Graphology (the analysis of handwriting)
    8) Ability/work sample (for example, work scenarios and tasks, and role playing)
    9) Psychometric testing
    10) Assessment centers (for example, multiple tests in simulated problems)
    11) Others (please specify): _________

17. Does the organisation offer job training for employees?
    1) Yes 2) No (go to question 22)

18. How many hours of training does a new employee receive in the first year of employment? ____ Hours

19. How many hours of training per year does an experienced employee (> 1year working experience) receive? _____ Hours

20. Which training methods are applied in the organisation? (as many as applied)
    1) Lectures, presentations, workshops
    2) Computer-based teaching and interactive video
    3) Programmed or distance learning using manuals
    4) Mentoring
    5) Job rotation
    6) Apprenticeships
    7) Local conference/workshop
    8) Short course training
    9) Overseas training
    10) Long-term study at educational institutions
    11) Grant financial support for employee's self-study
    12) Study tours at other companies
    13) Others (please specify): ___________

21. The purposes of training and development practices in the organisation are:

(as many as applied)
1) Provide a reward to employees
2) Improve their technical job abilities
3) Improve employee's interpersonal abilities
4) Remedy employees past poor performance
5) Prepare employees for future job assignments
6) Build teamwork within the organisation
7) Provide substantial training when employees first start working in the organisation
8) Help employees understand the business (for example, knowledge of competitors, new technologies, and so on)
9) Provide employees with the skills needed to do a number of different jobs
10) Teach employees about the organisation's values and ways of doing things
11) Others (please specify): ____________________

22. Which of the following components of reward packaging are applied in the organisation? (as many as applied)
<u>Pay:</u>
1) Payment by results
2) Merit pay
3) Profit sharing
4) Performance bonuses/commission
5) Annual bonuses
6) Stock options
<u>Benefits:</u>
7) Housing
8) Social insurance
9) Medical insurance
10) Nursery
11) Schooling allowance
12) Cafeteria
13) Commuter bus
14) Sponsorship of sporting activities
15) Extra holiday/vacation
16) Company's product at discount rate
17) Library
18) Periodical health examination
19) Clinic service
20) Free Computers
21) Training
22) Others (please specify): _____

23. Does the organisation have a mediation committee ('tiaojie jigou')?
1) Yes 2) No

24. If 'No', the department which is in charge of the mediation is:
1) HR department
2) Trade union
3) Communist Party office
4) Others (please specify): ____

25. Has anyone from the organisation ever applied to the Labor Arbitration Commission ('laodong zhongcai weiyuanhui')?
1) Yes 2) No

26. Please indicate the extent to which the statements below describe the way you think HR practices are conducted in the organisation; where 1 = 'little extent' and 5 = 'great extent'

	Great				*little*
HR planning is linked to business planning	5	4	3	2	1
HR functions are devolved to line managers and departments	5	4	3	2	1
HR functions are involved in major strategic decisions	5	4	3	2	1
The organisation provides a clear job description	5	4	3	2	1
The organisation provides professional/technical training	5	4	3	2	1
Training and development activities are largely focused on short-term objectives	5	4	3	2	1
Formal job analysis is conducted to determine training needs	5	4	3	2	1
Performance appraisal emphasizes work outcomes of individual employees	5	4	3	2	1
Employees' earnings is closely tied to group/organisation performance	5	4	3	2	1
Pay incentives are a major part of the reward strategy in the organisation	5	4	3	2	1
Pay incentives are a large part of an employee's total earnings	5	4	3	2	1
Pay raises are determined mainly by an employee's performance	5	4	3	2	1
Compensation package is intended to promote employee retention	5	4	3	2	1
The level of compensation mainly depends on an employee's seniority	5	4	3	2	1
Promotion are based on performance rather than seniority	5	4	3	2	1
Job security is guaranteed to employees	5	4	3	2	1
Departments openly share important business information	5	4	3	2	1
Supervisors ask subordinates opinions, while giving their suggestions and feedback	5	4	3	2	1
Employees are allowed to do their work in the way they consider most effective	5	4	3	2	1
Employees are often informed of important business and operational issues	5	4	3	2	1
Employees are involved in the decision making process	5	4	3	2	1

Chinese values

27. If you wanted to get a business project approved, would you rely on
    1) Law and procedures
    2) Guanxi

28. How important are the following factors in your daily business transactions (1 = 'less important' and 5 = 'very important'?

	Very important			less important	
Keeping one's face	5	4	3	2	1
Having respect for seniority	5	4	3	2	1
Loyalty to one's family	5	4	3	2	1
Personal relations (guanxi)	5	4	3	2	1
Team spirit	5	4	3	2	1
Collective orientation	5	4	3	2	1
Trust in business partners	5	4	3	2	1
Taking risks	5	4	3	2	1

Personal Information

29. Age: ____

30. Gender:
    1) Male 2) Female

31. Education:
    1) Junior high school
    2) Senior high school
    3) Professional school
    4) Professional college
    5) University bachelor
    6) University master
    7) University PhD

32. How long have you been with your current organisation? _____ Months

33. What is your job title? ____

34. How long have you held in your current position? _____ Months

Thank you very much for your cooperation.

APPENDIX III

问卷

这是一份有关中国企业人力资源管理实践方面的问卷. 所有与问卷相关的信息将绝对保密并仅供学术研究一用. 多谢您的合作!

单位概况

1. 贵单位是于哪一年成立的? ______

2. 贵单位的行业性质是:
   1) 生产制造型
   2) 服务型(例如: 金融, 零售业, 酒店, 娱乐业)
   3) 政府或事业单位
   4) 其它（请指出） ______

3. 贵单位最近五年的年销售总收入(百万元)是:
   2005 年_____ 2004 年_____ 2003 年_____ 2002 年_____ 2001 年_____

4. 贵单位最近五年的年净利润是:
   2005 年_____ 2004 年_____ 2003 年_____ 2002 年_____ 2001 年_____

5. 贵单位有多少分支机构(例如:工厂或分公司)? ______

6. 贵单位共有多少员工（含各分公司机构员工）?
   1) <50 人
   2) 50-100
   3) 101-150
   4) 151-300
   5) 301-500
   6) >500

7. 贵单位签长期合同（>=1 年）的员工占总员工数的: ______%

8. 贵单位临时工(无劳动合同或劳动合同期<1 年)占总员工数 ______%

9. 贵单位员工的平均年龄是: _____

10. 贵单位的所有制形式是:
    1） 国有
    2） 集体
    3） 私营
    4） 股份
    5） 外资 （包括：独资， 合资，联合等）

１１． 股权分配 (100%)

１） 国家占：_____%股份

２） 集体占：_____%股份

３） 员工占（含管理人员）：_____%股份

４） 外资占：_____%股份

５） 家族成员占：______%股份

６） 其他占：______%股份

１２． 贵单位有无独立的人力资源或人事部门？_____有 _____无

１３． 贵单位人力资源（人事）部门行使如下哪些功能：（多项选择）

１） 招聘

２） 甄选

３） 培训

４） 薪酬

５） 奖惩

６） 集体谈判

７） 劳动安全保障

８） 劳动关系

９） 员工生涯规划

１０） 参与企业高层管理决策

１１） 其它（请指出）__________

<u>人力资源管理实践</u>

１４． 贵单位有无人力资源规划？

_____有 _____无 (如‘无’，请直接回答问题 No.15）

贵单位是否预测未来所需员工的人数和技能？

_____是 _____否

贵单位实施人力资源规划基于：

1) 每年一次

2) 每半年一次

3) 每三个月一次

4) 每五年一次

5) 其他 (请指出)___________

请您指出直接参与人力资源规划的人员和部门：（多项选择）

１） 董事会

２） 部门经理

３） 工会代表

４） 直接主管

５） 人事部门

６） 其他（请指出）_________

１５． 贵单位通过以下哪几种渠道招聘：（多项选择）

1） 内部公开招聘 （例如：通过布告栏，E-mail, 公司内参等）
2） 内部非公开提升 （例如：通过单位的人力资源数据库选拔合适的人才）
3） 聘用曾经在单位工作过的员工 （例如：离退休员工，或因某种原因离开工作岗位的员工）
4） 员工推荐
5） 顶替
6） 劳务市场
7） 政府分配
8） 劳务中介机构 （例如：外事服务公司，人才交流中心等）
9） 猎头公司
10） 学校招聘
11） 网上招聘
12） 广告
13） 其他（请指出）__________

16． 贵单位在甄选过程中采用以下哪些方法：（多项选择）
1） 申请表
2） 推荐信
3） 面试
4） 试用期
5） 工作能力测评
6） 书面测试
7） 笔迹分析
8） 工作样本（例如：工作模拟或角色扮演）
9） 心理测试
10） 管理评价中心（例如：用多种测试方法测试应聘人解决和处理问题的能力）
11） 其他（请指出）__________

17． 贵单位是否提供员工岗位培训？ _____是 ____否
（如‘无’，请直接回答问题 No. 22）

18． 新员工在工作第一年将接受多少小时的培训？ _______小时

19． 老员工（工作满一年以上）每年会有多少小时的培训？ ______小时

20． 贵单位采用培训方法：（多项选择）
1） 示范观摩
2） 电脑教学和录像
3） 运用手册和远程教学相结合
4） 顾问咨询
5） 岗位轮换
6） 学徒制
7） 地区性的研讨会
8） 短期课程培训

9） 海外培训
10） 脱产学习
11） 对员工的自费进修给予经济上的支持
12） 参观外单位
13） 其它（请指出）__________

21. 贵单位进行培训的目的是：（多项选择）
1） 一种奖励方式
2） 提高员工的技能
3） 提高员工的内在素质
4） 改善员工的低业绩
5） 为员工未来职业发展做准备
6） 建立团队意识
7） 为新员工提供额外的培训
8） 使员工了解组织的发展状况和现状（例如：竞争对手，新技术）
9） 培养多技能的人才
10） 使员工理解组织的价值观和规章制度
11） 其它（请指出）__________

22. 贵单位的激励方式有：（多项选择）
奖金：
1） 计件工资制
2） 绩效工资（指根据员工个人绩效而增发的奖励性工资）
3） 利润分享
4） 佣金（指直接按销售额的一定比例确定销售人员的报酬）
5） 年终分红
6） 股票期权（指在一定时间内，以特定价格购买一定数量公司股份的权利）
福利：
1） 住房补贴
2） 社会保险
3） 医疗保险
4） 子女入托补贴
5） 子女就学补贴
6） 伙食补助
7） 交通车
8） 体育活动赞助
9） 额外假期
10） 公司产品打折
11） 图书馆
12） 定期健康检查
13） 医疗室
14） 电脑
15） 培训
16） 其它（请指出）__________

２３． 贵单位是否有调解机构？ ____有 ____无

２４． 如‘无’，负责调解的部门是：
１） 人力资源部或人事部
２） 工会
３） 党委办公室
４） 其它（请指出）____________

２５． 是否有员工上诉劳动仲裁委员会？ ____是 ____否

２６． 根据如下有关人力资源管理实践活动的描述，请您评估贵单位人力资源管理的现状（５＝很显著，1=不存在)：

人力资源计划和市场策略相配合	5	4	3	2	1
人力资源部门的职责被下放至各业务部门	5	4	3	2	1
人力资源部门参与公司主要战略决策	5	4	3	2	1
招聘：					
单位明确定义各工作岗位的职责	5	4	3	2	1
培训：					
单位提供专业和技术培训	5	4	3	2	1
培训活动主要集中于短期目标	5	4	3	2	1
岗位分析决定了培训的目标	5	4	3	2	1
薪酬和奖惩：					
业绩评估强调个体员工的工作成果	5	4	3	2	1
员工的个人收入和公司的效益紧密相关	5	4	3	2	1
奖金是公司奖励机制的主要方式之一	5	4	3	2	1
奖金占员工总收入的很大比例	5	4	3	2	1
员工薪资的提高主要由其业绩所决定	5	4	3	2	1
薪酬策略的目的是为了留住员工	5	4	3	2	1
薪酬的多少和员工的年资成正比	5	4	3	2	1
职位的提升是基于员工的业绩而不是年资	5	4	3	2	1
员工的就业有保障	5	4	3	2	1
员工参与：					
各部门共同分享重要的商业信息	5	4	3	2	1
上级主管给予下属建议和反馈的同时也征求其观点和意见	5	4	3	2	1
员工可以依自己认为最有效的方式工作	5	4	3	2	1
单位重要的商业信息或市场策略会传达给所有员工	5	4	3	2	1
员工参与公司的决策过程	5	4	3	2	1

２７． 如果贵单位有一项目需要审批，贵单位将依靠：
1) 法律和相关程序
2) 个人关系

２８． 请您指出以下各因素在您日常商业事务中重要性 （5=很重要； 1=不重要）

保存脸面 （'面子'）	5	4	3	2	1
尊重长辈	5	4	3	2	1
对单位的忠诚	5	4	3	2	1
个人关系网	5	4	3	2	1
团队精神	5	4	3	2	1
集体主义	5	4	3	2	1
对生意伙伴的信任	5	4	3	2	1
冒险精神	5	4	3	2	1

<u>个人简历</u>

２９． 年龄：____
３０． 性别：
1) 男
2) 女
３１． 学历：
1) 初中
2) 高中
3) 中专
4) 大专
5) 本科
6) 研究生
7) 博士
３２． 您在目前的单位工作了多长时间？______ 月
３３． 您目前的职务是：
1) 总经理
2) 人力资源部经理
3) 部门经理
4) 其他
３４． 您任现职多长时间？ _____ 月

多谢合作！

APPENDIX IV

Interview Guide

The research participants were familiar with the research objectives and the background of the researcher prior to the scheduled meetings. General information on the name, position, and roles and responsibilities of the participants, interview dates and times, as well as the name of the organisation, were recorded at each sampled firm.

Name of the organisation:
Name of the participant:
Position of the participant:
Date of the interview:
Start and end time of the interview:
Nature of the job (i.e. roles and responsibilities):

List of Interview Questions:

Part I: Company Profile

1. Have there been structural changes in the organisation during the economic reform?
2. Is there any impact on the organisation after WTO entry, especially relating to HRM practices?

Part II: Human Resource Management

3. How the HR system in the organisation has developed?
   a) What is the role of HR manager in your company?
   b) What is the state of the HR dept. located in the organisation's structure?
4. Could you give an example that how the HR system in the organisation supports the business needs?
   a) What could be done differently to improve it?
5. Is it possible for candidates to use *introductions* or *guanxi* to get a job in the organisation?
   a) Why?
6. Based on the questionnaire, could you explain why the organisation does/doesn't use certain recruitment and selection techniques in the organisation?
7. How does your organisation calculate the budget on training expense?
8. How do you feel about employee training and development in the organisation?
9. Based on the questionnaire, there are certain practices in the reward structure that haven't been applied in the organisation. Which factors do you think make it difficult to adopt these practices?
10. Which practices have been used in the organisation so as to keep the talented staffs and discourage bad behaviour?
    a) How do these practices impact the company?
11. Is there any difference between the present the main responsibilities of the labour union compared to before the economic reform began?
    a) What extent?

b) Which factors affect the changes?

12. Do you feel that the working relationship between the managers and employees could be better?

    a) What could be done differently to improve it?

13. Is it difficult to dismiss an employee?

    a)Why?

Part III. Guanxi

14. Over the past 5 years, do you think *guanxi* is becoming less important in markets in China?

    a) If less important, why?

15. Why do you think *guanxi* is/has been important in Chinese society?
16. For the organisation, is *guanxi* an important part of its activities in the market economy (i.e. *guanxi* like power or money that can affect resource exchanges)?